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 the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order.	))))	Docket No. 22-KGSG-466-TAR

APPLICATION FOR FINANCING ORDER

Kansas Gas Service, a Division of ONE Gas, Inc. ("Kansas Gas Service" or "Company"), in accordance with the financial plan approved in Docket No. 21-KGSG-332-GIG ("21-332 Docket"), respectfully files this Application for Financing Order ("Application") for the recovery of Securitized Utility Tariff Costs (i.e., Qualified Extraordinary Costs)[1] and Financing Costs incurred because of the February 2021 Winter Event, commonly referred to as Winter Storm Uri ("Winter Event"). Pursuant to Kansas' Utility Financing and Securitization Act ("Act"), K.S.A. 66-1,240 *et seq.*, as well as K.S.A. 66-117, Kansas Gas Service respectfully requests authorization to issue Securitized Utility Tariff Bonds, in one or more series; to impose, charge, and collect Securitized Utility Tariff Charges; and create Securitized Utility Tariff Property related to the recovery of Qualified Extraordinary Costs. In support thereof, Kansas Gas Service states the following to the State Corporation Commission of the State of Kansas ("Commission"):

I. DESCRIPTION OF KANSAS GAS SERVICE

1. Kansas Gas Service is a natural gas public utility operating in the state of Kansas pursuant to certificates of convenience and necessity issued by the Commission. Kansas Gas Service's principal place of business within the state of Kansas is located at: 7421 West 129th Street, Overland Park, Kansas 66213.

[1] Pursuant to the Act, and relevant for this Application, "Securitized Utility Tariff Costs" means "Qualified Extraordinary Costs." K.S.A. 66-1,240(b)(21). As such, Kansas Gas Service's Application refers to these terms collectively as "Qualified Extraordinary Costs."

II. COMMUNICATION

2. The names, addresses, and phone numbers of the persons authorized to receive notices and communications with respect to this Application on behalf of Kansas Gas Service are as follows:

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III. CONDENSED BACKGROUND

3. On February 15, 2021, in Docket No. 21-GIMX-303-MIS (“21-303 Docket”), the Commission issued an Emergency Order (“Emergency Order”). Sub-zero temperatures and increased demand for electricity and natural gas caused by the Winter Event placed significant stress on utilities. Wholesale natural gas prices increased 10 to 100 times higher than normal.[2]

4. The Commission ordered jurisdictional utilities to do everything necessary to ensure natural gas and electricity continued to be provided to customers in Kansas.[3] The Commission authorized every jurisdictional electric and natural gas utility to defer extraordinary costs related to the Winter Event to a regulatory asset account.[4] Concurrent with this decision, the

[2] Emergency Order, 21-303 Docket, p. 1, ¶1 (Feb. 15, 2021) (Emergency Order).
[3] *See id.* at p. 2, ¶3.
[4] *See id.* at p. 2, ¶4.

Commission directed Kansas Gas Service to develop a plan to minimize the Winter Event's financial impact on Kansas Gas Service's ratepayers.[5] For perspective, by June 30, 2021, Kansas Gas Service had incurred and deferred approximately $390 million of costs related to the Winter Event.[6]

5. On July 30, 2021, Kansas Gas Service submitted its plan to minimize the financial impact of the Winter Event on customers.[7] Supported by testimony from five witnesses,[8] Kansas Gas Service proposed to apply for a Financing Order in a separate docket. Kansas Gas Service would seek authorization to issue Securitized Utility Tariff Bonds to finance the Winter Event's Qualified Extraordinary Costs.[9] After including additional carrying costs, legal and consulting fees, and other expenses, the estimated cost to be securitized totaled over $450 million.[10]

6. On November 19, 2021, Kansas Gas Service, Commission Staff ("Staff"), the Citizens' Utility Ratepayer Board ("CURB") and the Natural Gas Transportation Customer Coalition ("NGTCC") submitted a Joint Motion to Approve Settlement Agreement ("Financial Plan Settlement").[11, 12]

[Application continues on next page.]

[5] *See id.* at p. 3, ¶5.
[6] *See* Direct Testimony of Janet L. Buchanan, 21-332 Docket, p. 7, ll. 19 – 20, (Jul. 30, 2021).
[7] Kansas Gas Service Company, a Division of ONE Gas, Inc. Plan to Minimize the Financial Effects of the 2021 Winter Weather Event, 21-332 Docket (Jul. 30, 2021) (Financial Plan).
[8] Janet L. Buchanan, Mark W. Smith, Sean C. Postlethwait, Bernadette M. Johnson, and Matt L. Robbins.
[9] *See* Financial Plan, p. 1 (Jul. 30, 2021).
[10] *See id.* at p. 37, ¶65.
[11] Joint Motion to Approve Settlement Agreement, 21-332 Docket (Nov. 19, 2021) (Financial Plan Settlement). Note: Certain parties to the Financial Plan Settlement took no position on either the amount or prudence of the Qualified Extraordinary Costs and reserved their rights to object in any Commission docket or proceeding, or any other type of action in any court or agency, to any proposal that would seek to charge natural gas transportation customers for any of the Qualified Extraordinary Costs set forth in the Financial Plan Settlement.
[12] Note: Symmetry Energy Solutions, LLC has officially withdrawn its opposition to the Financial Plan Settlement, provided the Commission does not reject or make material modification to a settlement reached regarding transportation penalties. *See* Symmetry Energy Solutions, LLC's Motion to Withdraw Its Opposition to The Nonunanimous Settlement Agreement on The Financial Plan, 21-332 Docket, p. 1, ¶¶1-3 (Jan. 20, 2022).

7. On February 8, 2022, in the 21-332 Docket, the Commission approved the Financial Plan Settlement in its entirety.[13] The Commission emphasized: (1) it was in the public interest for Kansas Gas Service to incur extraordinary costs during the Winter Event,[14] (2) it is in the public interest to recover these costs,[15] and (3) the plan implemented by this Application will result in just and reasonable rates.[16]

IV. REQUEST FOR A FINANCING ORDER

8. Kansas Gas Service respectfully requests the Commission approve the proposed Financing Order attached to this Application and incorporated herein by reference.

A. Linking the Financial Plan Settlement's Terms with This Application

9. The Financial Plan Settlement requires Kansas Gas Service to apply for a Financing Order seeking authorization to issue Securitized Utility Tariff Bonds to finance the Qualified Extraordinary Costs incurred due to the Winter Event.[17] Likewise, the Financial Plan Settlement includes several elements which Kansas Gas Service must incorporate into this Application.

10. At the time of the Financial Plan Settlement, Kansas Gas Service had prudently incurred Qualified Extraordinary Costs totaling $366,158,817.[18] Kansas Gas Service will update and verify the Qualified Extraordinary Costs as part of this proceeding.[19] The Qualified Extraordinary Costs included in the Financial Plan Settlement are:

a) Gas Costs: $358,086,241

b) Operations and Maintenance Costs: $222,459

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[13] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, 21-332 Docket, p. 10, Ordering Clause (A) (Feb. 8, 2022) (Financial Plan Settlement Order).
[14] *See id.* at p. 9, ¶19.
[15] *See id.* at pp. 7 – 8, ¶17.
[16] *See id*.
[17] *See* Financial Plan Settlement Order, Exhibit A, pp. 6 – 7, ¶11.
[18] *See id.* at p. 6, ¶10.
[19] *See id.*

c) Financing Fees – Term Loan: $4,525,260

d) Financing Fees – Notes Offering: $2,393,383

e) Legal and Consulting Costs (unrelated to financing): $931,474.[20]

11. Kansas Gas Service may recover carrying charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the Qualified Extraordinary Costs were incurred until the Securitized Utility Tariff Bonds are issued and Kansas Gas Service begins to charge customers a Securitized Utility Tariff Charge.[21]

12. The Financial Plan Settlement deferred certain determinations to this proceeding. Notwithstanding the Act's requirements, this proceeding will determine: the term of the bonds, and how Securitized Utility Tariff Charges will be recovered from Kansas Gas Service's sales customers.[22] Unless otherwise prohibited by law, Securitized Utility Tariff Charges will not be charged to transportation customers.[23] Unless otherwise prohibited by law, sales customers who become transportation customers during the period Securitized Utility Tariff Charges are being recovered shall be required to pay a settlement fee prior to becoming a transportation customer.[24]

13. As agreed to in the Financial Plan Settlement, the Qualified Extraordinary Costs do not reflect approximately $15 million associated with a disputed Macquarie invoice. At the time of this filing this invoice remains disputed. As such, the disputed invoice and its gas costs will not be included in Qualified Extraordinary Costs to be securitized.[25]

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[20] *See id.* at p. 14, Appendix 1.
[21] *See id.* at p. 7, ¶12.
[22] *See id.* at p. 7, ¶13.
[23] *See id.* at p. 8, ¶17.
[24] *See* Financial Plan Settlement Order, Exhibit A, pp. 8 – 9, ¶19 (The settlement fee owed by the customer shall be based on the present value of the expected charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered. This settlement fee will be credited to Kansas Gas Service's other sales customers once a year through the COGR/ACA.).
[25] *See* Financial Plan Settlement Order, Exhibit A, p. 7 – 8, ¶14.

14. Kansas Gas Service's Application contains a reconciliation proposal. As contemplated by the Financial Plan Settlement, this proposal considers both the deferred tax liability associated with Qualified Extraordinary Cost recoveries, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carry-forward created by the Qualified Extraordinary Costs.[26]

B. Description of Securitization Process and Proposed Financing Order

15. The proposed Financing Order, as well as testimony from Company witnesses, more fully describes Kansas Gas Service's securitization proposal. In general, the proposal consists of the following framework:

a) The Qualified Extraordinary Costs will be updated, trued-up, verified, and allocated among Kansas Gas Service's sales customers;

b) Kansas Gas Service will form a wholly owned, subsidiary, Delaware Special Purpose Entity LLC ("SPE"), referred to in the Act as an Assignee;[27]

c) The SPE will be designed to be a bankruptcy-remote limited purpose entity;[28]

d) The Financing Order will establish the mechanism for the creation of Securitized Utility Tariff Property[29]

[26] *See id.* at Exhibit A, p. 8, ¶15.

[27] "Assignee" means a corporation, limited liability company, general partnership, limited partnership, public authority, trust, financing entity or other entity to which a public utility assigns, sells or transfers, other than as security, all or a portion of its interest in, or right to, securitized utility tariff property. K.S.A. 66-1,240(b)(4).

[28] *See* the Direct Testimony of Charles N. Atkins II, pp. 8 - 9, submitted concurrently with this Application.

[29] "Securitized Utility Tariff Property" includes:

> (A) All rights and interests of a public utility, its successor or assignee under a financing order, including the right to impose, bill, charge, collect and receive securitized utility tariff charges authorized under the financing order and to obtain periodic adjustments to such charges authorized under this section and as provided in the financing order; and
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> (B) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in the financing order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are imposed, billed, received, collected or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

e) Kansas Gas Service will transfer, via a true sale, its rights in Securitized Utility Tariff Property to the SPE, rendering the Financing Order irrevocable;

f) The SPE will issue Securitized Utility Tariff Bonds to investors;

g) The proceeds from the Securitized Utility Tariff Bonds will be used, directly or indirectly to recover, finance or refinance Kansas Gas Service's Qualified Extraordinary Costs and Financing Costs;

h) The Securitized Utility Tariff Bonds and Financing Costs will be secured by or payable from the Securitized Utility Tariff Property transferred to the SPE;

i) Kansas Gas Service will act as a collection agent or servicer for the SPE and the SPE's right to collect and receive Securitized Utility Tariff Charges;

j) Kansas Gas Service will, on a semi-annual basis, unless greater frequency becomes necessary, apply an Adjustment Mechanism to the Securitized Utility Tariff Charges to ensure the timely and complete payment of the Securitized Utility Tariff Bonds and all other Financing Costs.

C. Introduction of Witnesses

16. The Act sets forth a series of elements Kansas Gas Service's Application must contain.[30] In particular, Kansas Gas Service's Application must be supported by direct testimony and schedules.[31] Three witnesses are testifying in support of Kansas Gas Service's Application:

Janet L. Buchanan: Director of Rates and Regulatory Reporting for Kansas Gas Service

17. Ms. Buchanan is the Director of Rates and Regulatory Reporting for Kansas Gas Service and is the Company's primary witness. Ms. Buchanan discusses the Commission's February 8, 2022, Order approving the Financial Plan Settlement as well as the Act. Ms. Buchanan outlines how Kansas Gas Service's Application was contemplated by the Financial Plan Settlement, and how Kansas Gas Service satisfies the Act's Application requirements. In addition, Ms. Buchanan discusses other requirements of the Act. Specifically, Ms. Buchanan describes

[30] *See* K.S.A. 66-1,241(c).
[31] *See* K.S.A. 66-1,241(c)(11).

customer education and the appearance of Securitized Utility Tariff Charges on customer bills. Further, Ms. Buchanan introduces other witnesses testifying on behalf of Kansas Gas Service.

Mark W. Smith: Vice President and Treasurer for ONE Gas, Inc.

18. Mr. Smith is a Vice President and Treasurer of Kansas Gas Service's parent company – ONE Gas, Inc. ("ONE Gas"). Mr. Smith provides an estimate of Financing Costs related to issuing Securitized Utility Tariff Bonds as well as an estimate of when the bonds or series of bonds can be issued. In addition, Mr. Smith compares the net present value of Qualified Extraordinary Costs incurred by Kansas Gas Service's sales customers under Securitized Utility Tariff Bonds and under a traditional recovery mechanism. This comparison demonstrates how the issuance of Securitized Utility Tariff Bonds is expected to provide quantifiable net rate benefits to customers. Mr. Smith also details various agreements related to the proposed Financing Order, which will be submitted as late-filed exhibits to this Application within 30 days. These agreements include: a Servicing Agreement, the SPE LLC Agreement, Property Sales Agreement, and the Indenture.

Charles N. Atkins II: CEO of Atkins Capital Strategies LLC

19. Mr. Atkins was retained by ONE Gas to assist with the securitization of Qualified Extraordinary Costs incurred because of the Winter Event. In addition to receiving a Juris Doctor from Harvard Law School, Mr. Atkins is a graduate of Howard University's College of Arts and Sciences with a Bachelor of Arts degree in Political Science, with minor concentrations in Economics, Mathematics and Sociology. A veteran of the financial industry, Mr. Atkins has decades of experience with securitization. In fact, Mr. Atkins played a lead role in the first utility stranded cost securitization – the 1997 $2.9 billion transaction for Pacific Gas and Electric. In this proceeding, Mr. Atkins: (1) provides background information on the use of securitization in other

jurisdictions, (2) discusses the basic framework of the bonds proposed to be issued, (3) presents a proposed preliminary bond structure and structuring considerations, and (4) discusses key provisions of the proposed Financing Order.

D. Statutory Filing Requirements

20. The Act contains specific provisions Applications for Financing Orders and Financing Orders themselves must contain.[32] Kansas Gas Service's Application and proposed Financing Order satisfy each of these requirements.

i. Qualified Extraordinary Cost Description; Avoidance of Extreme Customer Impacts

21. K.S.A. 66-1,241(c)(1)(B) requires Kansas Gas Service's Application describe:

> the qualified extraordinary costs that the public utility proposes to recover and how customary rate-making treatment of such costs would result in extreme customer rate impacts.

22. The Qualified Extraordinary Costs, subject to update, true-up, and verification were established in the Commission-approved Financial Plan Settlement.[33] This settlement established Kansas Gas Service would propose to recover $366,158,817 of Qualified Extraordinary Costs.[34] These costs include:

a) Gas Costs: $358,086,241

b) Operations and Maintenance Costs: $222,459

c) Financing Fees – Term Loan: $4,525,260

d) Financing Fees – Notes Offering: $2,393,383

e) Legal and Consulting Costs (unrelated to financing): $931,474

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[32] *See* K.S.A. 66-1,241(c),(e).

[33] *See* Financial Plan Settlement Order, Exhibit A, pp. 6 – 7, ¶¶10, 14; Appendix 1.

[34] *I.e.*, Qualified Extraordinary Costs the Company incurred during the Winter Event to meet the Kansas Corporation Commission's Emergency Order (e.g., costs for procuring and transporting natural gas supplies for jurisdictional utility customers; costs associated with coordinating and assisting non-jurisdictional utilities with transporting gas supplies; other reasonable costs necessary to ensure stability and reliability of natural gas service). Emergency Order, ¶4.

f) Additional Costs to be Updated, Trued-Up, and Verified in this Proceeding.

23. Ms. Buchanan provides a review of Commission orders issued in relevant regulatory proceedings (i.e., the 21-303 Docket and 21-332 Docket). This testimony links Kansas Gas Service's Application and the Financial Plan Settlement. Importantly, Ms. Buchanan details the nature of Kansas Gas Service's Qualified Extraordinary Costs, and the 21-332 Docket which described and evaluated these costs. Ms. Buchanan notes the costs incurred by Kansas Gas Service fully satisfy criteria the Commission established in its Emergency Order and the Act's definition of Qualified Extraordinary Costs.[35] Additionally, Ms. Buchanan updates the Qualified Extraordinary Costs.

24. Kansas Gas Service may recover carrying charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the costs were incurred until the Securitized Utility Tariff Bonds are issued and Kansas Gas Service begins to charge customers a Securitized Utility Tariff Charge.[36] Kansas Gas Service incorporates these costs in the update, true-up, and verification process. Mr. Smith details this estimated cost at $14,972,289 if the Securitized Utility Tariff Bonds are issued in February 2023.

25. Using customary rate-making treatment to recover Kansas Gas Service's Qualified Extraordinary Costs would result in extreme customer rate impacts.[37] If the proposed Financing Order is denied, Kansas Gas Service proposes to utilize a rider to recover the Qualified Extraordinary Costs over a three- or five-year period. The rider would recover the Qualified Extraordinary Costs from all Kansas Gas Service's sales customers using a fixed monthly charge. For residential customers, this amounts to $16.24 per month if recovered over three years or $10.57

[35] *See* the Direct Testimony of Janet L. Buchanan, p. 11, submitted concurrently with this Application.
[36] *See* Financial Plan Settlement Order, Exhibit A, p. 7, ¶12.
[37] *See* Direct Testimony of Janet L. Buchanan, 21-332 Docket, p. 7, l. 9, (Jul. 30, 2021). *See e.g.*, the Direct Testimony of Mark W. Smith, pp. 8 – 12, and Janet L. Buchanan, pp. 36 – 37, submitted concurrently with this Application.

per month if recovered over five years.[38] This monthly charge, though shorter in duration than the Company's securitization proposal, places an extreme rate impact on Kansas Gas Service's customers. This impact can be avoided using securitization, which is the Company's preferred cost recovery mechanism for the Qualified Extraordinary Costs.

ii. Securitized Utility Tariff Costs Proposed to Be Recovered with Bond Proceeds

26. K.S.A. 66-1,241(c)(2) requires Kansas Gas Service's Application describe:

> the securitized utility tariff costs[39] that the applicant proposes to recover with the proceeds of the securitized utility tariff bonds.

27. Ms. Buchanan discusses Kansas Gas Service's proposal to recover Qualified Extraordinary Costs incurred because of the Winter Event using proceeds from Securitized Utility Tariff Bonds. Subject to update, true-up and verification, Kansas Gas Service proposes to recover $366,158,817 of Qualified Extraordinary Costs.[40] After including estimated carrying costs, updates and true-ups, as well as initial Financing Costs, and completing the verification process, the estimated total to be securitized through January 21, 2022, using Kansas Gas Service's proposed Financing Order is $390,165,368. As discussed by Ms. Buchanan and Mr. Smith, the collection of penalties from transportation and individually balanced customers prior to bond issuance will reduce the total to be securitized.

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[38] Note: These rate projections assume no penalties have been collected at the time Securitized Utility Tariff Charges are imposed. Ms. Buchanan's testimony provides additional illustrations assuming $37 million in penalties are collected prior to charges being imposed on customers.

[39] "Securitized utility tariff costs" means either energy transition costs or qualified extraordinary costs. K.S.A. 66-1,241(b)(24). "Qualified extraordinary costs" includes, at the option of and upon application by a public utility and as approved by the commission, costs that the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events." K.S.A. 66-1,241(b)(18).

[40] *I.e.*, Costs the Company incurred during the Winter Event to meet the Commission's Emergency Order (e.g., costs for procuring and transporting natural gas supplies for jurisdictional utility customers; costs associated with coordinating and assisting non-jurisdictional utilities with transporting gas supplies; other reasonable costs necessary to ensure stability and reliability of natural gas service). 21-303 Emergency Order, ¶4.

iii. Financing All or Portion of Securitized Utility Tariff Costs

28. K.S.A. 66-1,241(c)(3)(A) requires Kansas Gas Service's Application describe:

> whether the public utility proposes to finance all or a portion of the securitized utility tariff costs using securitized utility tariff bonds. If the public utility proposes to finance a portion of the securitized utility tariff costs, the public utility shall identify the specific portion in the application.

29. For clarity, the Act's definition of Securitized Utility Tariff Costs is the same as Qualified Extraordinary Costs. "Securitized utility tariff costs" means either energy transition costs or qualified extraordinary costs."[41]

30. Kansas Gas Service intends to finance 99.93% of Securitized Utility Tariff Costs using Securitized Utility Tariff Bonds. Ms. Buchanan discusses Kansas Gas Service's proposal to finance and securitize all Qualified Extraordinary Costs incurred by retail gas sales service customers due to the Winter Event. The Company's proposed Securitized Utility Tariff Costs, once updated, trued-up, and verified are $390,165,368.

31. In preparing this Application, Kansas Gas Service reviewed the Qualified Extraordinary Costs approved in the 21-332 Docket's Financial Plan Settlement and their recoverability under the Act. During this review, Kansas Gas Service determined the Qualified Extraordinary Costs of retail gas sales service customers could be securitized, but not the Qualified Extraordinary Costs of wholesale or Sales Service for Resale customers. The Act's definitions of "Nonbypassable" and "Securitized Utility Tariff Charge" do not apply to, and cannot be imposed on, wholesale or Sales Service for Resale customers. Accordingly, Kansas Gas Service removed wholesale or Sales Service for Resale Qualified Extraordinary Costs from its securitization proposal. Kansas Gas Service intends to recover the Qualified Extraordinary Costs of wholesale

[41] K.S.A. 66-1,240(b)(21).

and Sales Service for Resale customers through traditional ratemaking methods. The wholesale or Sales Service for Resale proposal is discussed in Section F of this Application.

iv. Estimated Financing Costs

32. K.S.A. 66-1,241(c)(4) requires Kansas Gas Service's Application provide an estimate of the Financing Costs related to the Securitized Utility Tariff Bonds. Mr. Smith testifies Kansas Gas Service estimates the upfront Financing Costs associated with its securitization proposal total $7,976,813. This total includes legal fees (for the Company, the underwriter and the trustee), underwriting fees, rating agency fees, servicer set-up fees, accounting/auditor fees, printing/filing fees, the set-up cost of the SPE, and fees for the Company and Commission's financial advisors. The upfront financing costs are approximately 2.09% of the issuance amount. Additionally, the Company will incur ongoing Financing Costs. Ongoing costs include servicing fees, administrative fees, accounting and auditing fees, legal fees, rating agency surveillance, trustee fees, and the cost of an independent director. In total, ongoing fees run approximately 0.13% of the issuance amount or $485,363 per year.

v. Estimated Charges; Recovery Period; Financing Structure; Payment and Maturity

33. K.S.A. 66-1,241(c)(5) requires Kansas Gas Service's Application provide:

> an estimate of the securitized utility tariff charges necessary to recover the securitized utility tariff costs and all financing costs, the period for recovery of such costs and a description of the proposed financing structure, including the proposed scheduled final payment dates and final maturity of the securitized utility tariff bonds.

34. Pursuant to the Financial Plan Settlement, the method used to recover Securitized Utility Tariff Charges will be decided in this proceeding.[42] Ms. Buchanan testifies Kansas Gas Service proposes to use a fixed monthly charge per customer and outlines how the monthly charge

[42] *See* Financial Plan Settlement Order, Exhibit A, p. 7, ¶13.

varies depending on the customer type and scheduled recovery period approved by the Commission. Mr. Smith and Mr. Atkins testify how utilizing a fixed monthly customer charge helps secure the highest rating possible for the Company's Securitized Utility Tariff Bonds.

35. The following table illustrates the estimated monthly charges for Kansas Gas Service's sales customers under the Company's proposed 10-year scheduled recovery period.

Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.953%	$35,617,878	$5.04
General Service - Small	36,902	8.794%	$3,967,324	$8.96
General Service - Large	11,527	10.486%	$4,730,423	$34.20
General Service - Transport Eligible	502	1.723%	$777,335	$129.04
Small Generator Service	690	0.033%	$14,700	$1.78
Irrigation Sales	197	0.011%	$5,115	$2.16
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$45,112,775	

36. The Act requires the Commission afford Kansas Gas Service:

> flexibility in establishing the terms and conditions for the securitized utility tariff bonds to accommodate changes in market conditions, including repayment schedules, interest rates, financing costs, collateral requirements, required debt service and other reserves and the ability of the public utility, at its option, to effect a series of issuances of securitized utility tariff bonds and correlated assignments, sales, pledges or other transfers of securitized utility tariff property. Any changes made under this subsection to terms and conditions for the securitized utility tariff bonds shall be in conformance with the financing order.[43]

37. Kansas Gas Service requests the Commission grant flexibility and authorize the Company to implement either a five-, seven-, ten-, or twelve-year scheduled recovery period depending on which period best serves sales customers. Based on available data, the Company's preference is to utilize a ten-year scheduled recovery period. Additionally, the term selected directly impacts the per-month Securitized Utility Tariff Charge to be collected from customers.

[43] K.S.A. 66-1,241(h)(3).

As such, Ms. Buchanan presents estimates of Securitized Utility Tariff Charges depending on the scheduled recovery period authorized by the Commission.

38. Combined, Mr. Atkins and Mr. Smith describe the proposed financing structure, including the proposed scheduled final payment dates and final maturity dates of the Securitized Utility Tariff Bonds. The Company proposes to issue two tranches of bonds which will amortize in a sequential manner with their own respective scheduled final maturity and rated legal maturity dates. While the company's securitization proposal is anticipated to occur over 10 years, to provide a maturity cushion the proposed Securitized Utility Tariff Bonds utilize legal maturities that extend beyond the bond's scheduled final maturity. Mr. Atkins more fully explains this concept, and how the final bond-specific stress tests impact the maturity cushion. Mr. Atkins and Mr. Smith more fully describe the preliminary structure of the proposed Securitized Utility Tariff Bonds.

vi. Securitized Utility Tariff Charge Revenue Requirement Allocation

39. K.S.A. 66-1,241(c)(6) requires Kansas Gas Service describe:

> the proposed methodology for allocating the revenue requirement for the securitized utility tariff charge among customer classes, including special contract customers, as provided in [K.S.A. 66-1,241].

40. Ms. Buchanan testifies Kansas Gas Service proposes to allocate Qualified Extraordinary Costs to its sales customer classes based on each retail sales customer classes' percentage of the total estimated February 2021 sales volumes. Ms. Buchanan likewise testifies why Qualified Extraordinary Costs are not allocated to transportation customers. The proposed allocation method is as follows:

[Application continues on next page.]

Customer Class	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.953%
General Service - Small	870,171	8.794%
General Service - Large	1,037,545	10.486%
General Service - Transport Eligible	170,496	1.723%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	-	0.000%
	9,894,787	100.000%

vii. Nonbypassable Securitized Utility Tariff Charge and Adjustment Mechanism

41. K.S.A. 66-1,241(c)(7) requires Kansas Gas Service describe:

> the nonbypassable securitized utility tariff charge required to be paid by all customers within the public utility's service area for recovery of securitized utility tariff costs and a proposed adjustment mechanism reflecting the allocation methodology referred to in [K.S.A. 66-1,241(c)(6)];

42. Ms. Buchanan describes the Winter Event Securitized Cost Recovery Rider ("WESCR"), which is the proposed tariff necessary to recover Securitized Utility Tariff Costs from customers. As shown in the WESCR's terms and Ms. Buchanan's testimony, the WESCR will be recovered from the Company's sales customers beginning the first billing cycle following the issuance of Securitized Utility Tariff Bonds. In addition, the WESCR implements the Financial Plan Settlement's term for sales customers who switch to a transportation rate schedule. Customers who elect to make this switch will be assessed a settlement fee based on the present value of the expected charges the customer would have paid under its sales rate schedule set in the WESCR. As such, the WESCR establishes the Company's Securitized Utility Tariff Charges satisfy the Act's nonbypassable requirement.

43. To obtain the highest bond rating possible, the Company's proposed WESCR modifies the Company's General Terms and Conditions. This ensures payments received by the

Company's sales customers will first be applied to the WESCR portion of their bill, and then to their remaining charges. To the extent necessary, Kansas Gas Service requests a waiver of the Commission's Billing Standards to implement the WESCR's payment priority terms.

44. Kansas Gas Service proposes to implement the Act's adjustment mechanism on a semi-annual basis to determine any over- or under-collection and ensure the timely and complete payment of the Securitized Utility Tariff Bonds. Semi-annual filings will help minimize variations in the WESCR for customers. Kansas Gas Service also proposes to reserve the right to make more frequent optional adjustments at any time in the event any under-collection is projected. During the last year prior to the scheduled final maturity for the last Securitized Utility Tariff Bond tranche, adjustment calculations will be conducted on a quarterly basis to ensure the bonds and related ongoing financing costs will be paid in full by the scheduled final maturity of the last bond tranche. Pursuant to K.S.A. 66-1,241(g), and as established in the proposed Financing Order, the semi-annual Adjustment Mechanism will be accomplished using an administrative notice filing to determine if any mathematical or clerical errors are present in the adjustment mechanism's calculations.

45. Regarding Kansas Gas Service's service area, the proposed Financing Order and applicable Securitized Utility Tariff Charges will be imposed on and collected from all existing and future retail customers located within Kansas Gas Service's service area as it exists on the date the Commission issues a financing order. In the event the Company's service area expands in the future, Kansas Gas Service proposes to retain discretion whether Securitized Utility Tariff Charges be imposed and collected within the expanded service area.

viii. Proposed Timeline to Issue Bonds

46. K.S.A. 66-1,241(c)(8) requires Kansas Gas Service provide "an estimate of the timing of the potential issuance of the Securitized Utility Tariff Bonds or series of bonds." Mr.

Atkins testifies to the general process and steps necessary to execute a bond issuance. Mr. Smith testifies on the anticipated issuance of Kansas Gas Service's Securitized Utility Tariff Bonds. Kansas Gas Service will create a SPE (i.e., a Special Purpose Entity founded and organized as a limited purpose Delaware Limited Liability Company), which will issue the Securitized Utility Tariff Bonds. Presently, the Company expects to issue Securitized Utility Tariff Bonds in February 2023.

ix. Net Present Value Comparison

47. K.S.A. 66-1,241(c)(9)(B) requires Kansas Gas Service provide:

> a comparison between the net present value of the costs to customers that are estimated to result from the issuance of securitized utility tariff bonds and the costs that would result from the application of traditional methods of financing and recovery of such qualified extraordinary costs. The comparison shall demonstrate that the issuance of securitized utility tariff bonds and the imposition of securitized utility tariff charges are expected to provide net quantifiable rate benefits to customers or would avoid or mitigate rate impacts to customers.

48. Mr. Smith describes how the issuance of Securitized Utility Tariff Bonds, and the imposition of Securitized Utility Tariff Charges will provide net quantifiable rate benefits to customers or would avoid or mitigate rate impact to customers. As evidenced by Mr. Smith's testimony, using a ten-year scheduled final maturity securitization provides the most customer savings. A ten-year securitization is, on a present value basis, at least $59.2 million less expensive than all other traditional rate making methods.

x. Reconciliation Process; Statement of Non-Affect

49. K.S.A. 66-1,241(c)(10)(A)-(B) requires Kansas Gas Service:

> specify a future rate-making process to reconcile any difference between the securitized utility tariff costs financed by securitized utility tariff bonds and the final securitized utility tariff costs incurred by the public utility or the assignee;
>
> [and provide]

> a statement that the reconciliation may affect the public utility's rates or any rider but shall not affect the securitized utility tariff bonds, the securitized utility tariff property or the associated securitized utility tariff charges paid by customers.

50. Ms. Buchanan demonstrates not all costs or offsets to the costs to be securitized will be known at the time Kansas Gas Service submits this Application or, provided the Commission approves, at the time the bonds are issued. To account for this, the Company proposes to use a reconciliation process on the first anniversary of the issuance of the bonds. Because the reconciliation process cannot affect the Company's Securitized Utility Tariff Bonds, Securitized Utility Tariff Property, or Securitized Utility Tariff Charges, the Company proposes to implement the reconciliation process through its Cost of Gas Rider. By using this existing rider, the Company will implement the reconciliation process through an existing rate-making process in a manner that does not affect other securitization items. Kansas Gas Service hereby affirms the reconciliation process will not affect the Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property or the associated Securitized Utility Tariff Charges paid by customers.

xi. Direct Testimony and Schedules Supporting the Application

51. K.S.A. 66-1,241(c)(11) requires Kansas Gas Service provide "direct testimony and schedules supporting the [A]pplication." As discussed above, three witnesses are testifying on behalf of Kansas Gas Service in this Application and have incorporated within their testimony schedules supporting the Application. This testimony incorporates the Financial Plan Settlement's terms and applies these terms to satisfy the Act's application requirements.

E. Proposed Financing Order

52. With this Application, Kansas Gas Service respectfully requests the Commission adopt and approve the proposed Financing Order attached to this Application and previously incorporated by reference. Kansas Gas Service has developed the proposed Financing Order to fully satisfy the Act's statutory requirements, and fully implement the Financial Plan's Settlement.

Where applicable, the proposed Financing Order distinguishes elements agreed to in the Financial Plan Settlement as compared to elements proposed in Kansas Gas Service's Application.

i. Financing Order Statutory Findings

53. K.S.A. 66-1,241(d) authorizes the Commission to issue a financing order if the Commission finds:

a. Securitized utility tariff costs described in the application are just and reasonable; and

b. proposed issuance of securitized utility tariff bonds and the imposition and collection of securitized utility tariff charges are expected to provide net quantifiable rate benefits to customers when compared to the costs that would result from the application of the traditional method of financing and recovering the securitized utility tariff costs with respect to energy transition costs or that would avoid or mitigate rate impacts to customers.

54. As discussed above, the Commission has concluded: (1) it was in the public interest for Kansas Gas Service to incur extraordinary costs during the Winter Event,[44] (2) it is in the public interest to recover these costs,[45] and (3) the plan implemented by this Application will result in just and reasonable rates.[46] Pursuant to the Act, Kansas Gas Service respectfully requests the Commission incorporate and adopt these conclusions in the proposed Financing Order. [47]

55. Likewise, Kansas Gas Service respectfully requests the Commission find the proposed issuance of Securitized Utility Tariff Bonds and the imposition and collection of Securitized Utility Tariff Charges will provide: (1) net quantifiable rate benefits to customers when compared to the costs that would result from the application of the traditional method of financing

[44] Financial Plan Settlement Order, Exhibit A, p. 9, ¶19 (Feb. 8, 2022).
[45] *See id*. at pp. 7 – 8, ¶17.
[46] *See id*.
[47] K.S.A. 66-1,241(d)(1).

and recovering the securitized utility tariff costs with respect to energy transition costs or (2) would avoid or mitigate rate impacts to customers.[48]

ii. Financing Order Statutory Elements

56. The Act details sixteen (16) separate elements a Financing Order must contain.[49] The proposed Financing Order attached to this Application fully satisfies the Act's requirements and is supported by the testimony of the Company's witnesses. In addition, the proposed Financing Order fully implements the Application and Financial Plan Settlement approved in the 21-332 Docket.

iii. Additional Financing Order Requirements and Elections

57. Pursuant to K.S.A. 66-1,241(f), Kansas Gas Service intends to transfer all Securitized Utility Tariff Property to a SPE, which will then pledge such property to secure the Securitized Utility Tariff Bonds. This transfer will render the proposed Financing Order irrevocable except for changes made pursuant to the adjustment mechanism.[50]

58. Pursuant to K.S.A. 66-1,241(h)(2), the Act requires Kansas Gas Service retain sole discretion regarding the decision to issue Securitized Utility Tariff Bonds notwithstanding the issuance of a Financing Order.

59. Pursuant to K.S.A. 66-1,241(h)(3), the Act requires Kansas Gas Service be afforded flexibility in establishing terms and conditions for Securitized Utility Tariff Bonds, with any such changes being in conformance with the proposed Financing Order.

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[48] K.S.A. 66-1,241(d)(2).

[49] K.S.A. 66-1,241(e) lists eighteen (18) elements a financing order must contain. However, K.S.A. 66-1,241(e)(15) and (16) are only applicable to Energy Transition Costs as defined in the Act. Accordingly, since Kansas Gas Service is only seeking recovery Qualified Extraordinary Costs and not Energy Transition Costs, these specific subsections are not relevant to the Company's Application.

[50] K.S.A. 66-1,241(h)(1).

60. The proposed Financing Order fully allows for the Commission to participate in the issuance advice letter process established in K.S.A. 66-1,241(h)(4).

61. Pursuant to K.S.A. 66-1,241(h)(5), the costs incurred by the Commission to perform its responsibilities in issuing a Financing Order and to observe the steps taken by the Company to bring the Securitized Utility Tariff Bonds to market must be included as Financing Costs and included in the Securitized Utility Tariff Charge. Ms. Buchanan testifies the Company's proposed Financing Order satisfies this requirement.

62. The Act's definition of Financing Costs includes "any state and local taxes, franchise fees, gross receipts and other taxes or similar charges, including Commission assessment fees, whether paid, payable or accrued."[51] As such, the WESCR is subject to taxes and franchise fees as set out in the Company's General Terms and Conditions.

63. Pursuant to K.S.A. 66-1,252, the State of Kansas, its agencies, and the Commission pledge and agree with Bondholders, the owners of the Securitized Utility Tariff Property and other financing parties that the state and its agencies shall not take any action listed in K.S.A. 66-1,252. K.S.A. 66-1,252(b) authorizes any person or entity that issues Securitized Utility Tariff Bonds to include this language in the bonds and related documentation. Kansas Gas Service hereby incorporates the pledges made by the State of Kansas, its agencies, and the Commission into its Application and proposed Financing Order.

F. Non-Securitized Costs

64. Kansas Gas Service is not seeking to securitize Qualified Extraordinary Costs incurred on behalf of the Company's Sales Service for Resale customers. While these costs meet the Commission and Act's definition of Qualified Extraordinary Costs, they are not recoverable

[51] K.S.A. 66-1,240(b)(10)(E).

under a financing order. The Act's definitions of "Nonbypassable" and "Securitized Utility Tariff Charge" permit securitizing the costs of retail customers. However, there is no provision permitting their imposition on wholesale or the Sales Service for Resale customer class. To ensure all Qualified Extraordinary Costs are recovered, Kansas Gas Service proposes to recover these costs over a three- or five-year period.

65. Kansas Gas Service proposes to recover the costs allocated to the Sales Service for Resale customer class through a monthly fixed charge. The following table illustrates the estimated monthly charges for Kansas Gas Service's Sales Service for Resale customers under the Company's proposed three or five-year scheduled recovery period:[52]

Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
3 Year Amortization	17	100.00%	$97,173	$476.34
5 Year Amortization	17	100.00%	$63,211	$309.86

V. CONCLUSION

66. Securitizing the Winter Event's Qualified Extraordinary Costs minimizes the financial impact on Kansas Gas Service's retail ratepayers. The Company's proposed Financing Order implements the Commission-approved Financial Plan Settlement, fully satisfies the Act's requirements, and results in just and reasonable rates for Kansas Gas Service's retail customers. Likewise, the Company's proposal to recover Qualified Extraordinary Costs from wholesale or Sales Service for Resale customers through traditional ratemaking presents a just and reasonable resolution of these customers' Winter Event Costs.

[52] Note: These rate projections assume no penalties have been collected at the time Securitized Utility Tariff Charges are imposed. Ms. Buchanan's testimony provides additional illustrations assuming $37 million in penalties are collected prior to charges being imposed on customers.

WHEREFORE, Kansas Gas Service respectfully requests the Commission adopt, approve, and issue the Company's proposed Financing Order, and any other relief the Commission deems just and reasonable.

Respectfully submitted,

/s/ Robert Elliott Vincent

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VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

I, Robert Elliott Vincent, of lawful age, being first duly sworn upon oath, states as follows: I am a Managing Attorney for Kansas Gas Service, a division of ONE Gas, Inc. I have read and is familiar with the foregoing filing and all the statements therein are true to the best of my knowledge, information and belief.

Robert Elliott Vincent

Affiant

SUBSCRIBED AND SWORN to before me on 3/31/22.

Notary public

My Appointment Expires:

6/5/22

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2022

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Dwight D. Keen, Chair
Susan K. Duffy
Andrew J. French

In The Matter of The Application of Kansas Gas Service, a Division of ONE Gas, Inc. For the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order.	)))))	**DOCKET NO.** 22-KGSG-___-TAR

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FINANCING ORDER

This Financing Order addresses the Application of Kansas Gas Service, a Division of ONE Gas, Inc. ("Kansas Gas Service" or the "Company" and "ONE Gas," respectively"), under the Utility Financing and Securitization Act[1] (the "Act"): (1) to securitize the Company's Qualified Extraordinary Costs[2] of $381,703,193; (2) for approval of the proposed securitization financing structure; and (3) for approval of the creation of Securitized Utility Tariff Property[3] consisting of the right to impose and collect Securitized Utility Tariff Charges[4] sufficient to repay, finance or refinance Securitized Utility Tariff Bonds, including Upfront and Ongoing Financing Costs.[5]

The Commission approves Kansas Gas Service's Application, as modified by this Financing Order. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of the Act. Accordingly, the Commission: (1) approves

[1] K.S.A. §§ 66-1,240 - 66-1,253

[2] K.S.A. § 66-1,240(b)(21) defines Securitized Utility Tariff Costs as either Energy Transition Costs or Qualified Extraordinary Costs.

[3] K.S.A. § 66-1,240(b)(22).

[4] K.S.A. § 66-1,240(b)(20).

[5] K.S.A. § 66-1,240(b)(19)(B).

the securitization of Qualified Extraordinary Costs, including Upfront and Ongoing Financing Costs; (2) authorizes, subject to the terms of this Financing Order, the issuance of Securitized Utility Tariff Bonds in in an aggregate amount not to exceed the Qualified Extraordinary Costs less the portion of these costs attributable to the Sales for Resale customer class and Financing Costs; (3) approves the structure of the proposed securitization financing through an Issuance Advice Letter process; (4) approves the creation of Securitized Utility Tariff Property consisting of the right to impose and collect Securitized Utility Tariff Charges in an amount to be calculated as provided in this Financing Order; and (5) approves the form of tariff, as provided in this Financing Order, to implement those Securitized Utility Tariff Charges.

In order to approve the securitization the Commission must make certain findings, among them: (1) that the Securitized Utility Tariff Charges will be just and reasonable; (2) that the issuance of Securitized Utility Tariff Bonds and the imposition and collection of a Securitized Utility Tariff Charge are expected to provide net quantifiable rate benefits to customers as compared to the traditional methods of financing and recovering Securitized Utility Tariff Costs from customers or would avoid or mitigate rate impacts to customers; and (3) that the structuring, pricing and Financing Costs of the Securitized Utility Tariff Bonds are expected to result in the lowest Securitized Utility Tariff Charges, consistent with market conditions at the time the Securitized Utility Tariff Bonds are priced and the terms of the Financing Order.[6] Based on the evidence submitted by Kansas Gas Service, the Commission finds that the proposed securitization warrants such findings.

[6] *See* K.S.A. §§ 66-1,241(d) and (e)(5).

Considering the magnitude of the benefits provided, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under Kansas Gas Service's proposed securitization structure presented in Kansas Gas Service Witness Mark Smith's testimony. .

Based on the evidence submitted by Kansas Gas Service, the Commission finds that as a result of the securitization approved by this Financing Order, consumers in Kansas Gas Service's service area will realize benefits currently estimated to be a range of approximately $56 million to $100 million on a present value basis, depending on the securitization or conventional financing options to be compared.[7] The Commission concludes that the benefits for consumers set forth in Kansas Gas Service's evidence are fully indicative of the benefits that consumers will realize from the securitization approved in this Financing Order; however, the Issuance Advice Letter will require Kansas Gas Service to update the benefit analysis to verify that the final structure of the securitization satisfies the statutory financial tests.

Kansas Gas Service provided a description of the proposed transaction structure in its Application, as supported by the testimony and accompanying exhibits. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the considerations of the nationally-recognized credit rating agencies that rate the Securitized Utility Tariff Bonds and, in part, upon the market conditions that exist at the time the Securitized Utility Tariff Bonds are taken to the market.

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[7] *See* K.S.A. §§ 66-1,240 - 66-1,253; Application Exhibit MWS-3.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is on the statutory requirements that must be met prior to issuing a Financing Order. By statute, the Commission must adopt the following findings of fact, in accordance with K.S.A. § 66-1,240(e):

a) The amount of Securitized Utility Tariff Costs to be financed using Securitized Utility Tariff Bonds;[8]

b) An approved customer billing mechanism for Securitized Utility Tariff Charges, including a specific methodology for allocating the necessary Securitized Utility Tariff Charges among the different customer classes;[9]

c) A finding that the proposed issuance of Securitized Utility Tariff Bonds and the imposition and collection of a Securitized Utility Tariff Charge are expected to provide net quantifiable rate benefits to customers as compared to the traditional methods of financing and recovering Securitized Utility Tariff Costs from customers or would avoid or mitigate rate impacts to customers.[10]

d) An approved plan for the public utility, by means other than on the monthly bill, to provide information regarding the benefits of securitization obtained for customers through the Financing Order;[11]

e) A finding that the structuring, pricing and financing costs of the Securitized Utility Tariff Bonds are expected to result in the lowest Securitized Utility Tariff Charges, consistent with market conditions at the time the Securitized Utility Tariff Bonds are priced and the terms of the Financing Order;[12]

f) a requirement that, for so long as the Securitized Utility Tariff Bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of Securitized Utility Tariff Charges authorized under a Financing Order shall be nonbypassable[13];

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[8] K.S.A. 66-1,241(e)(1).

[9] K.S.A. 66-1,241(e)(2)(A).

[10] K.S.A. 66-1,241(e)(3).

[11] K.S.A. 66-1,241(e)(4).

[12] K.S.A. 66-1,241(e)(5).

[13] K.S.A. 66-1,241(e)(6).

g) an Adjustment Mechanism;[14]

h) A description of the securitized utility tariff property that is, or shall be, created in favor of a public utility, or its successors and assignees, and that shall be used to pay and secure the payment of Securitized Utility Tariff Bonds and all financing costs authorized in the Financing Order;[15]

i) A statement specifying the degree of flexibility to be afforded to the public utility in establishing the terms and conditions of the Securitized Utility Tariff Bonds, including, but not limited to, repayment schedules, expected interest rates and other financing costs;[16]

j) Authorization for the applicant public utility to finance Securitized Utility Tariff Costs through the issuance of one or more series of Securitized Utility Tariff Bonds[17]

k) A requirement that, after the final terms of an issuance of Securitized Utility Tariff Bonds have been established and before the issuance of Securitized Utility Tariff Bonds, the public utility determines the resulting initial Securitized Utility Tariff Charge is in accordance with the Financing Order and that such initial Securitized Utility Tariff Charge be final and effective upon the issuance of such Securitized Utility Tariff Bonds without further Commission action so long as the Securitized Utility Tariff Charge is consistent with the Financing Order;[18]

l) A method of tracing funds collected as Securitized Utility Tariff Charges, or other proceeds of securitized utility tariff property, demonstrating that such method shall be deemed the method of tracing such funds and determining the identifiable cash proceeds of any securitized utility tariff property subject to a Financing Order under applicable law;[19]

m) A statement specifying a future rate-making process to reconcile any differences between the actual Securitized Utility Tariff Costs financed by Securitized Utility Tariff Bonds and the final Securitized Utility Tariff Costs incurred by the utility or assignee provided that any such

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[14] K.S.A. 66-1,241(e)(7).

[15] K.S.A. 66-1,241(e)(8).

[16] K.S.A. 66-1,241(e)(9).

[17] K.S.A. 66-1,241(e)(10).

[18] K.S.A. 66-1,241(e)(11).

[19] K.S.A. 66-1,241(e)(12).

reconciliation shall not affect the amount of Securitized Utility Tariff Bonds or the associated security tariff charges paid by customers;[20]

n) A procedure that allows the public utility to earn a return, at the cost of capital authorized from time to time by the Commission in the public utility's rate proceedings, on any moneys advanced by the public utility to fund reserves, if any, or capital accounts established under the terms of any Indenture, ancillary agreement or other financing documents pertaining to the Securitized Utility Tariff Bonds;[21]

o) A date, not earlier than one year after the date that the Financing Order is no longer subject to appeal, when the authority to issue Securitized Utility Tariff Bonds granted in such Financing Order shall expire;[22] and

p) Any other conditions that the Commission deems appropriate and that are consistent with this section.[23]

The Commission finds that Kansas Gas Service's Application, testimony, and accompanying exhibits, which the Commission has reviewed and evaluated, provides support for findings on each of these requirements. The findings themselves and the basis for each are set out in this Financing Order.

Finally, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. The authority and approval granted in this Financing Order is effective only upon Kansas Gas Service filing with the Commission an Issuance Advice Letter demonstrating compliance with the provisions of this Financing Order. If market conditions make it desirable to issue the Securitized Utility Tariff Bonds in more than one series, then the authority and approval granted in this Financing Order is effective as to each issuance upon, but only upon, Kansas Gas

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[20] K.S.A. 66-1,241(e)(13).

[21] K.S.A. 66-1,241(e)(14).

[22] K.S.A. 66-1,241(e)(17).

[23] K.S.A. 66-1,241(e)(18).

Service filing with the Commission a separate Issuance Advice Letter for that issuance demonstrating compliance of that issuance with the provisions of the Financing Order.

I. Discussion and Statutory Overview

In mid-February 2021, Kansas experienced sub-zero temperatures brought by Winter Storm Uri (the "Winter Event"), which led to a significant increase in demand for electricity and natural gas. On February 14, 2021, a State of Disaster Emergency was issued by Governor Kelly due to expected prolonged low temperatures and the strain on natural gas and utility providers; at the time, wholesale natural gas prices were reflecting increases from 10 to 100 times their normal rates.

On February 15, 2021, pursuant to K.S.A. § 77-536(a), the State Corporation Commission of the State of Kansas ("Commission") issued an Emergency Order in Docket No. 21-GIMX-303-MIS (Docket 21-303), directing jurisdictional natural gas utilities to take all reasonably feasible, lawful, and appropriate actions to ensure adequate transportation of natural gas to interconnected, non-jurisdictional Kansas utilities.[24] Jurisdictional natural gas utilities were ordered to do everything necessary to ensure that natural gas service continued to be provided to their customers in Kansas.[25] The Commission authorized every jurisdictional natural gas distribution utility to defer extraordinary costs incurred during the Winter Event to a regulatory asset account.[26] By June

[24] Emergency Order, 2l-GIMX-303-MIS (21-303 Docket), p. 2, ¶3 (Feb. 15, 2021) (Emergency Order).

[25] *Id.*

[26] *Id.* at ¶4.

30, 2021, Kansas Gas Service Company had incurred and deferred approximately $390 million of costs related to the Winter Event.[27]

The Act was enacted, in part, in response to the extraordinary costs experienced by Kansas Gas Service and other gas utilities due to the Winter Event. The Act refers to these costs as "Qualified Extraordinary Costs," and defines them to include,

> costs the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events.[28]

The Commission further identified possible costs to be deferred including, but,

> not limited to the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies, and any other reasonable costs necessary to ensure stability and reliability of natural gas and electric service. These deferred costs may also include carrying costs at the utility's weighted average cost of capital.[29]

As shown in the testimony and exhibits filed in support of its Application, Kansas Gas Service incurred costs as a result of the Winter Event that meet the definition of Qualified Extraordinary Costs and should be included in the costs to be recovered by Kansas Gas Service.

To securitize a utility's Qualified Extraordinary Costs, the Commission may authorize the issuance of securities known as Securitized Utility Tariff Bonds. Securitized Utility Tariff Bonds are evidence of indebtedness or ownership that are issued under a Financing Order, are limited to a term of not longer than 32 years, and are secured by or payable from Securitized Utility Tariff

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[27] *See* Direct Testimony of Janet L. Buchanan, 21-332 Docket, p. 7, ll. 19 – 20, (Jul. 30, 2021).

[28] K.S.A. § 66-1,240(b)(18).

[29] Emergency Order, Page 2, paragraph 4.

Property.[30] The net proceeds from the sale of the Securitized Utility Tariff Bonds must be used to directly or indirectly to recover, finance or refinance Commission-approved Qualified Extraordinary Costs.[31] If Securitized Utility Tariff Bonds are approved and issued, sales customers (including bills to special contract customers) must pay the principal, interest, and related charges of the Securitized Utility Tariff Bonds through Securitized Utility Tariff Charges.[32] Securitized Utility Tariff Charges are nonbypassable charges that will be paid by all existing or future sales customers receiving natural gas service from the public utility or its successors or assignees under Commission-approved rate schedules or under special contracts, even if a retail customer elects to purchase natural gas from an alternative natural gas supplier following a fundamental change in regulation of public utilities in Kansas.[33] Securitized Utility Tariff Charges are to be billed, collected and remitted by Kansas Gas Service as Servicer, or a successor Servicer, in full, separate and apart from Kansas Gas Service's base rates.[34]

The rights to impose, collect, and receive Securitized Utility Tariff Charges (including all other rights of a utility under the Financing Order) are only contract rights until such rights (which may relate to all or, if more than one series of Securitized Utility Tariff Bonds are issued due to market conditions, a portion of the Qualified Extraordinary Costs) are first transferred to an assignee or pledged in connection with the issuance of Securitized Utility Tariff Bonds.[35] Upon the transfer or pledge of those rights, they become Securitized Utility Tariff Property and, as such,

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[30] K.S.A. § 66-1,240(b)(19)(A).

[31] *Id.*

[32] K.S.A. § 66-1,240(b)(20).

[33] *Id.*

[34] *Id.*

[35] K.S.A. § 66-1,246(c).

are afforded certain statutory protections to ensure that the charges are available for the payment of principal and interest on the bonds and other related costs.[36]

This Financing Order includes a mandatory semi-annual formula-based rate Adjustment Mechanism requiring that Securitized Utility Tariff Charges be reviewed by the Servicer and adjusted at least semi-annually, to correct any overcollections or under-collections during the preceding six months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Securitized Utility Tariff Bonds.[37] In addition to the required semi-annual reviews, the Servicer may implement more frequent reviews at any time to ensure that the amount of the Securitized Utility Tariff Charges matches the funding requirements approved in this Financing Order. Kansas Gas Service, as Servicer, or a Substitute Servicer, may modify the Adjustment Mechanism in the event it finds that the Adjustment Mechanism will not provide Securitized Utility Tariff Charges sufficient to meet the funding requirements for its next two scheduled principal and interest payments and related Ongoing Financing Costs. These provisions will help to ensure that the amount of Securitized Utility Tariff Charges paid by sales customers is equal to, but does not exceed, the amount necessary to cover the costs of this securitization. The Financing Order also reflects other statutory benefits and assurances that are necessary for securitization.

The Commission may adopt a Financing Order only if it finds that the proposed issuance of Securitized Utility Tariff Bonds and the imposition and collection of Securitized Utility Tariff Charges are expected to provide net quantifiable rate benefits to customers when compared to the costs that would result from the Application of the traditional method of financing and recovering

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[36] *See* K.S.A. § 66-1,246.

[37] K.S.A. § 66-1,240(b)(2).

the Securitized Utility Tariff Costs with respect to Qualified Extraordinary Costs or that would avoid or mitigate rate impacts to customers.[38] To make that determination, the Commission must review a comparison between the net present value of the costs to customers that are estimated to result from the issuance of Securitized Utility Tariff Bonds and the costs that would result from the Application of traditional methods of financing and recovery of such Qualified Extraordinary Costs, which Kansas Gas Service has included in its Application.[39]

Economic benefits depend upon a favorable financial market—one in which Securitized Utility Tariff Bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which Securitized Utility Tariff Bonds can be sold in a future market, however, is not yet known. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.,* the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.,* the interest rate of the Securitized Utility Tariff Bonds, the term of the Securitized Utility Tariff Bonds). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether net quantifiable benefits result. To ensure that benefits are realized, an Issuance Advice Letter must be presented to the Commission after pricing of the Securitized Utility Tariff Bonds demonstrating that the actual structure and costs of the Securitized Utility Tariff Bonds will provide net quantifiable benefits to customers.

Kansas Gas Service's financial analysis shows that securitizing the Qualified Extraordinary Costs will produce an economic benefit to ratepayers currently estimated to be a range of approximately $56 million to $100 million on a present value basis, depending on the securitization

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[38] K.S.A. 66-1,241(d)(2).

[39] *See* K.S.A. § 66-1,241(c)(9)(B).

or conventional financing options to be compared.[40] Before the Securitized Utility Tariff Bonds may be issued, Kansas Gas Service must submit to the Commission an Issuance Advice Letter that indicates the final structure of the Securitized Utility Tariff Bonds and provides the best available estimate of total Ongoing Financing Costs.[41] An example Form of Issuance Advice Letter is attached to this Financing Order as Appendix A.

The State of Kansas and its agencies, including the Commission, have pledged and agreed that the state and its agencies shall not:

- Alter the statute that authorizes the Commission to create an irrevocable contract right or chose in action by the issuance of a Financing Order, to create securitized utility tariff property and to make the Securitized Utility Tariff Charges imposed by a Financing Order irrevocable, binding or nonbypassable charges for all existing and future retail customers within the service area of the public utility;
- Take any action that would impair the value of Securitized Utility Tariff Property or the security for the Security Utility Tariff Bonds, or revises the Securitized Utility Tariff Costs for which recovery is authorized;
- Impair the rights and remedies of the bondholders, assignees and other financing parties in any way; or
- Except for changes made pursuant to the Adjustment Mechanism expressly allowed by law, reduce, alter, or impair the Securitized Utility Tariff Charges to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties, until any and all principal, interest, premium, financing costs and other fees, expenses or charges incurred and any contracts to be performed in connection with the related Securitized Utility Tariff Bonds have been paid and performed in full.[42]

Notwithstanding that the imposition and collection of Securitized Utility Tariff Charges depends on Kansas Gas Service performing its servicing functions relating to the collection of Securitized Utility Tariff Charges and on future natural gas consumption, Securitized Utility Tariff Property (whether associated with a single bond series covering the entire Qualified Extraordinary

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[40] *See* K.S.A. §§ 66-1,240 - 66-1,253; Application Exhibit MWS-3.

[41] K.S.A. § 66-1,241(h)(4).

[42] K.S.A. § 66-1,252(a).

Costs or with one of multiple bond series covering only a portion of the Qualified Extraordinary Costs) constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist until Securitized Utility Tariff Bonds issued pursuant to the Financing Order have been paid in full and all Financing Costs and other costs of such Securitized Utility Tariff Bonds have been recovered in full.[43] In addition, the interests of an assignee or pledgee in Securitized Utility Tariff Property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the utility or any other person or in connection with the bankruptcy of the utility or any other entity.[44]

The Commission may, at the request of a utility, adopt a Financing Order providing refinancing, retiring or refunding of Securitized Utility Tariff Bonds issued pursuant to this Financing Order if the Commission finds that the subsequent Financing Order satisfies all of the criteria for a Financing Order under the Act.[45] This Financing Order does not preclude Kansas Gas Service from filing a request for a Financing Order to retire or refund Securitized Utility Tariff Bonds approved in this Financing Order upon a showing that the statutory criteria are met.[46]

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in K.S.A § 66-1,240.

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[43] K.S.A. §§ 66-1,244(a)-(b).

[44] K.S.A. § 66-1,244(e).

[45] K.S.A. § 66-1,241(i).

[46] *Id.*

II. <u>Description of Proposed Transaction</u>

A description of the transaction proposed by Kansas Gas Service is contained in its Application and the filing package submitted as part of the Application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in the Findings of Fact, Section C, titled "Structure of the Proposed Securitization," attached appendices, and in the Application itself. In general, the proposal consists of the following framework:

a) The Qualified Extraordinary Costs will be updated, trued-up, verified, and allocated among Kansas Gas Service's sales customers;

b) Kansas Gas Service will form a wholly owned, subsidiary, Delaware Special Purpose Entity LLC (the "SPE"), referred to in the Act as an Assignee;[47]

c) The SPE will be designed to be a bankruptcy-remote limited purpose entity;[48]

d) The Financing Order will establish the mechanism for the creation of Securitized Utility Tariff Property;[49]

e) Kansas Gas Service will transfer, via a true sale, their rights in Securitized Utility Tariff Property to the SPE, rendering the Financing Order irrevocable;

f) The SPE will issue Securitized Utility Tariff Bonds to investors;

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[47] "Assignee" means a corporation, limited liability company, general partnership, limited partnership, public authority, trust, financing entity or other entity to which a public utility assigns, sells or transfers, other than as security, all or a portion of its interest in, or right to, securitized utility tariff property. K.S.A. 66-1,240(b)(4).

[48] *See* Direct Testimony of Charles N. Atkins II, p. 8.

[49] "Securitized Utility Tariff Property" includes:

(A) All rights and interests of a public utility, its successor or assignee under a financing order, including the right to impose, bill, charge, collect and receive securitized utility tariff charges authorized under the financing order and to obtain periodic adjustments to such charges authorized under this section and as provided in the financing order; and

(B) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in the financing order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are imposed, billed, received, collected or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

g) The proceeds from the Securitized Utility Tariff Bonds will be used, directly or indirectly to recover, finance or refinance Kansas Gas Service's Qualified Extraordinary Costs and Financing Costs;

h) The Securitized Utility Tariff Bonds and Financing Costs will be secured by or payable from the Securitized Utility Tariff Property transferred to the SPE;

i) Kansas Gas Service will act as a collection agent or servicer for the SPE and the SPE's right to collect and receive Securitized Utility Tariff Charges;

j) Kansas Gas Service will, on a semi-annual basis, apply an Adjustment Mechanism to the Securitized Utility Tariff Charges to ensure the timely and complete payment of the Securitized Utility Tariff Bonds and all other Financing Costs.

To facilitate the proposed securitization, Kansas Gas Service will form a Delaware limited liability subsidiary special purpose entity (the "SPE") to which will be transferred the rights to impose, collect, and receive Securitized Utility Tariff Charges along with the other rights arising pursuant to this Financing Order. Upon transfer (in connection with the issuance of the Securitized Utility Tariff Bonds), the rights to impose, collect, and receive Securitized Utility Tariff Charges along with the other rights arising pursuant to this Financing Order will become Securitized Utility Tariff Property as provided by K.S.A. § 66-1,244. The SPE will issue the Securitized Utility Tariff Bonds and will transfer the net proceeds from the sale of the Securitized Utility Tariff Bonds to Kansas Gas Service in consideration for the transfer of the Securitized Utility Tariff Property. The SPE will be organized and managed in a manner designed to achieve the objective of maintaining the SPE as a bankruptcy-remote special purpose entity that will not be affected by any bankruptcy or insolvency of ONE Gas, Kansas Gas Service, any other division, their affiliates, or respective successors. In addition, the SPE will have at least one independent manager whose approval will be required for certain actions or changes by the SPE.

The Securitized Utility Tariff Bonds will be issued pursuant to an Indenture and a series supplement, which will be administered by an Indenture Trustee ("the Indenture," and "the

Indenture Trustee" respectively). The Securitized Utility Tariff Bonds will be secured by and payable solely out of the corresponding Securitized Utility Tariff Property created pursuant to this Financing Order and any collateral described in Kansas Gas Service's Application. Such collateral will be pledged to the Indenture Trustee for the benefit of the holders of the Securitized Utility Tariff Bonds and to secure payment of the principal, interest, and related charges for the Securitized Utility Tariff Bonds.

The Servicer of the Securitized Utility Tariff Bonds will bill and collect the Securitized Utility Tariff Charges and remit those amounts to the Indenture Trustee on behalf of the SPE. The Servicer will be responsible for filing any required or permitted true ups of the Securitized Utility Tariff Charges. The Servicer will perform these functions for the SPE pursuant to the Servicing Agreement by and between Kansas Gas Service, as the initial servicer, and the SPE. If the Servicer defaults on its obligations under the Servicing Agreement, the Indenture Trustee may appoint a successor Servicer. Kansas Gas Service will act as the initial Servicer for the Securitized Utility Tariff Bonds and will collect fees as described in the Servicing Agreement.

The Servicing Agreement prohibits the initial Servicer's ability to resign as Servicer unless (i) it is unlawful for the initial Servicer to continue in such a capacity, or (ii) the Commission consents and the credit rating agencies confirm that the resignation would not impact the ratings on the Securitized Utility Tariff Bonds. Resignation of the initial Servicer cannot become effective until the successor Servicer has fully assumed all obligations to continue servicing the Securitized Utility Tariff Bonds without interruption. The Servicer may be terminated from its responsibilities in certain cases upon a majority vote of bondholders.

Kansas Gas Service requested approval of Securitized Utility Tariff Charges sufficient to recover the principal and interest on the Securitized Utility Tariff Bonds as described in this

Financing Order and Attachment 2, Schedule B of Appendix A, Form of Issuance Advice Letter, attached hereto. Securitized Utility Tariff Charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the Securitized Utility Tariff Bonds and in a manner that allocates this amount to the various classes of sales customers as provided in this Financing Order or as otherwise ordered by the Commission.

The Securitized Utility Tariff Charges will be calculated on a fixed monthly charge per customer, pursuant to the method described in the Winter Event Securitized Cost Recovery Rider ("WESCR"), a pro forma copy of which is contained in Appendix B, Form of Tariff. The fixed monthly per-customer Securitized Utility Tariff Charge will be adjusted semi-annually pursuant to the Adjustment Mechanism described in this Financing Order. The per-customer charge initially will be calculated using the customer count reported in the most recent Kansas Gas Service Annual Report and will be updated semi-annually. Additionally, if the customer count for a particular class declines by more than ten percent (10%) from that identified in the 2020 Annual Report, then the allocation factors will be recalculated using the most recent 12-month weather normalized volume for each customer class.

The Securitized Utility Tariff Charges shall be collected over the expected life of the Securitized Utility Tariff Bonds. However, Securitized Utility Tariff Charges shall be collected until all of the Securitized Utility Tariff Bonds and related Ongoing Financing Costs are paid in full. The Issuance Advice Letter shall specify both the scheduled final maturity of the Securitized Utility Tariff Bond tranches and the legal maturity for the Securitized Utility Tariff Bond tranches. The legal maturity is expected to be longer than the scheduled final maturity, based upon rating agency and market considerations, but in no event shall the final legal maturity exceed 32 years from the issuance date of the Securitized Utility Tariff Bonds. Amounts remaining unpaid after final legal maturity of the last Securitized Utility Tariff Bond tranche may be recovered but only to the extent that the charges are attributable to services rendered prior to the final legal maturity of the last Securitized Utility Tariff Bond tranche.

The Securitized Utility Tariff Charge will become effective on the day after the Securitized Utility Tariff Bonds are issued. As required by the Act, this charge will be a separate line item on the bill. Billing will begin with the first billing cycle of the month following bond issuance.

A true-up adjustment mechanism (or "Adjustment Mechanism"), as described in K.S.A. § 66-1,240(b)(2) and as authorized by the Commission in this Financing Order, shall be used to make necessary corrections to (a) adjust for the overcollection or under-collection of Securitized Utility Tariff Charges, or (b) to ensure the timely and complete payment of the Securitized Utility Tariff Bonds, other Financing Costs, and other amounts due in connection with the Securitized Utility Tariff Bonds. In addition to the semi-annual true-up required by K.S.A. § 66-1,241(g), periodic true-ups may be performed as necessary to ensure that the amount collected from Securitized Utility Tariff Charges is sufficient to service the Securitized Utility Tariff Bonds. The methodology for making true-up adjustments under the Adjustment Mechanism and the circumstances under which any such adjustment shall be made are described in the pro-forma WESCR, attached to this Financing Order as Appendix B.

The Financial Plan Settlement approved by the Commission in Docket No. 21-KGSG-332-GIG includes several elements which Kansas Gas Service was required to incorporate into its Application. At the time of the Financial Plan Settlement, Kansas Gas Service had prudently incurred Qualified Extraordinary Costs totaling $366,158,817.[50] Kansas Gas Service has updated

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[50] *See* Settlement, Exhibit A, p. 6, ¶10.

and verified the Qualified Extraordinary Costs as part of this proceeding.[51] The updated Qualified Extraordinary Costs are:

EXTRAORDINARY COST DESCRIPTION	AMOUNT
Gas Costs	$358,499,433
O&M Costs	$211,639
Financing Fees - Term Loan	$4,525,260
Financing Fees - Notes Offering	$2,164,671
Legal/Consulting Costs	$1,586,043
Carrying Costs through February 2023	$14,972,289
Total Extraordinary Costs	$381,959,334

Kansas Gas Service was permitted to recover carrying charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the Qualified Extraordinary Costs were incurred until the Securitized Utility Tariff Bonds are issued and Kansas Gas Service begins to charge customers a Securitized Utility Tariff Charge.[52]

The Financial Plan Settlement deferred certain determinations to this proceeding. Notwithstanding the Act's requirements, this proceeding determined the term of the Securitized Utility Tariff Bonds, and how Securitized Utility Tariff Charges will be recovered from Kansas Gas Service's sales customers.[53] Unless otherwise prohibited by law, Securitized Utility Tariff Charges will not be charged to transportation customers.[54] Furthermore and pursuant to the Financial Plan Settlement, unless otherwise prohibited by law, sales customers who become transportation customers during the period Securitized Utility Tariff Charges are being recovered

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[51] *See* Settlement, Exhibit A, p. 6, ¶10.

[52] *See* Settlement, Exhibit A, p. 7, ¶12.

[53] *See* Settlement, Exhibit A, p. 7, ¶13.

[54] *See* Settlement, Exhibit A, p. 8, ¶17.

shall be required to pay a settlement fee prior to becoming a transportation customer.[55] The settlement fee owed by the customer shall be based on the present value of the expected charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered.[56] The charges shall use a discount rate of two percent (2%) consistent with the carrying charge identified in the Financial Plan Settlement. This settlement fee will be credited to Kansas Gas Service's other sales customers once a year through its Cost of Gas Rider ("COGR") tariff and associated Annual Cost Adjustment ("ACA") (collectively, "COGR/ACA").[57]

As agreed to in the Financial Plan Settlement, the Qualified Extraordinary Costs do not reflect approximately $15 million associated with a disputed Macquarie invoice. At the time Kansas Gas Service filed its Application this invoice remained disputed. As such, the disputed invoice and its gas costs will not be included in Qualified Extraordinary Costs to be securitized.[58]

Kansas Gas Service's Application contains a method of tracing funds collected as Securitized Utility Tariff Charges. The Securitized Utility Tariff Charges collected from customers will be placed on a separate line on customers' bills, allowing the Company to assign the Securitized Utility Tariff Charges a specific code, by customer class, in its billing system. This code will allow the Company to trace proceeds from the Securitized Utility Tariff Charges.

Kansas Gas Service's Application also contains a reconciliation proposal. As contemplated by the Financial Plan Settlement, this proposal considers both the deferred tax

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[55] *See* Settlement, Exhibit A, pp. 8 – 9 , ¶19 (The settlement fee owed by the customer shall be based on the present value of the expected charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered. This settlement fee will be credited to Kansas Gas Service's other sales customers once a year through the COGR/ACA.).

[56] *Id.*

[57] *Id.*

[58] *See* Settlement., Exhibit A, p. 7 – 8, ¶14.

liability associated with Qualified Extraordinary Cost recoveries, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carry-forward created by the Qualified Extraordinary Costs.[59]

III. <u>Findings of Fact</u>

A. Identification and Procedure

1. Identification of Applicant and Application

1. Kansas Gas Service is a natural gas public utility which owns and operates for compensation an extensive natural gas distribution network to provide service in this state. Kansas Gas Service is a division of ONE Gas, Inc.

2. On February 15, 2021, in Docket No. 21-GIMX-303-MIS, the Commission issued an Emergency Order.[60] Sub-zero temperatures and increased demand for electricity and natural gas caused by the Winter Event placed significant stress on utilities. Wholesale natural gas prices increased 10 to 100 times higher than normal.

3. The Commission ordered jurisdictional utilities to do everything necessary to ensure natural gas and electricity continued to be provided to customers in Kansas.[61] The Commission authorized every jurisdictional electric and natural gas utility to defer

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[59] *See* Settlement., Exhibit A, p. 8, ¶15.

[60] Emergency Order, Docket No. 21-GIMX-303-MIS, p. 1, ¶1 (Feb. 15, 2021) (Emergency Order).

[61] *See id.* at p. 2, ¶3.

extraordinary costs related to the Winter Event to a regulatory asset account.[62] Concurrent with this decision, the Commission directed Kansas Gas Service to develop a plan to minimize the Winter Event's financial impact on Kansas Gas Service's ratepayers.[63] For perspective, by June 30, 2021, Kansas Gas Service had incurred and deferred approximately $390 million of costs related to the Weather Event.[64]

4. On July 30, 2021, Kansas Gas Service submitted its plan to minimize the financial impact of the Winter Event on customers.[65] Supported by testimony from five witnesses,[66] Kansas Gas Service proposed to apply for a Financing Order in a separate docket. Kansas Gas Service would seek authorization to issue Securitized Utility Tariff Bonds to finance the Winter Event's Qualified Extraordinary Costs.[67] After including additional carrying costs, legal and consulting fees, and other expenses, the estimated cost to be securitized totaled over $450 million.[68]

5. On November 19, 2021, Kansas Gas Service, Commission Staff ("Staff"), the Citizens' Utility Ratepayer Board ("CURB") and the Natural Gas Transportation Customer Coalition

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[62] *See id.* at p. 2, ¶4.

[63] Emergency Order, Docket No. 21-GIMX-303-MIS, p. 3, ¶5 (Feb. 15, 2021).

[64] *See* Direct Testimony of Janet L. Buchanan, Docket No. 21-KGSG-332-GIG, p. 7, ll. 19 – 20, (Jul. 30, 2021).

[65] Kansas Gas Service Company, a Division of ONE Gas, Inc. Plan to Minimize the Financial Effects of the 2021 Winter Weather Event, Docket No. 21-KGSG-332-GIG (Jul. 30, 2021).

[66] Janet L. Buchanan, Mark W. Smith, Sean C. Postlethwait, Bernadette M. Johnson and Matt L. Robbins.

[67] Plan To Minimize the Financial Effects Of The 2021 Winter Weather Event, Docket No. 21-KGSG-332-GIG, p. 1 (Jul. 30, 2021).

[68] *See id.* at p. 37, ¶65.

("NGTCC") submitted a Joint Motion to Approve Settlement Agreement ("Financial Plan Settlement").[69, 70]

6. On February 8, 2022, in Docket No. 21-KGSG-332-GIG, the Commission approved the Financial Plan Settlement in its entirety.[71] The Commission emphasized: (1) it was in the public interest for Kansas Gas Service to incur extraordinary costs during the Winter Event,[72] (2) it is in the public interest to recover these costs,[73] and (3) the plan implemented by this Application will result in just and reasonable rates.[74]

2. Procedural History

7. On __________, in Docket No. _____________, Kansas Gas Service filed an Application for Financing Order for the recovery of Securitized Utility Tariff Costs (i.e., Qualified Extraordinary Costs)[75] and Financing Costs incurred because of the Winter Event. Kansas

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[69] Joint Motion to Approve Settlement Agreement, Docket No. 21-KGSG-332-GIG (Nov. 19, 2021) (Settlement). Note: Certain parties to the Financial Plan Settlement took no position on either the amount or prudence of the Qualified Extraordinary Costs and reserved theirs rights to object in any Commission docket or proceeding, or any other type of action in any court or agency, to any proposal that would seek to charge natural gas transportation customers for any of the Qualified Extraordinary Costs set forth in the Financial Plan Settlement.

[70] Note: Symmetry Energy Solutions, LLC agreed to and has officially withdrawn its opposition to the Financial Plan Settlement, provided the Commission does not reject or make material modification to a settlement reached regarding transportation penalties. *See* Symmetry Energy Solutions, LLC's Motion To Withdraw Its Opposition To The Nonunanimous Settlement Agreement On The Financial Plan, Docket No. 21-KGSG-332-KGS, p. 1, ¶¶1-3 (Jan. 20, 2022).

[71] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG, p. 10, Ordering Clause (A) (Feb. 8, 2022).

[72] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG, p. 9, ¶19 (Feb. 8, 2022).

[73] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG, pp. 7 – 8, ¶17 (Feb. 8, 2022).

[74] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG, pp. 7 – 8, ¶17 (Feb. 8, 2022).

[75] Pursuant to the Act, and relevant for this Application, "Securitized Utility Tariff Costs" means "Qualified Extraordinary Costs." K.S.A. 66-1,240(b)(21). As such, Kansas Gas Service's Application refers to these terms collectively as "Qualified Extraordinary Costs."

Gas Service provided a general description of the proposed transaction structure in its Application and in the testimony and exhibits submitted in support of its Application.

8. The following parties intervened in this proceeding and were granted party status:

- [TBD].

9. Kansas Gas Service's Application in this proceeding is consistent with the Financial Plan Settlement approved by the Commission in Docket No. 21-KGSG-332-GIG.[76]

10. No party opposes Kansas Gas Service's Application in this docket for a Financing Order.

B. Qualified Extraordinary Costs and Amount to be Securitized

1. Identification and Amounts

11. Qualified Extraordinary Costs are defined in the Act to include costs the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events.[77] The Commission has further identified deferred costs including, but, not limited to the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies, and any other reasonable costs necessary to ensure

[76] Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG (Feb. 8, 2022).

[77] K.S.A. § 66-1,240(b)(18).

stability and reliability of natural gas and electric service. These deferred costs may also include carrying costs at the utility's weighted average cost of capital.[78]

2. Balance to be Securitized

12. Kansas Gas Service should be authorized to cause Securitized Utility Tariff Bonds to be issued in an aggregate principal amount not to exceed the Qualified Extraordinary Costs (less the amount attributable to the Sales for Resale customer class) plus any incurred and Ongoing Financial Costs. Pursuant to this Financing Order, Kansas Gas Service will be responsible for costs of issuance, which may be paid out of proceeds of the Securitized Utility Tariff Bonds. It is appropriate to recover operations and maintenance, financing fees associated with the term loan and notes offering, legal and consulting fees, and additional Financing Costs identified in this proceeding directly through Securitized Utility Tariff Charges.

13. The proposed recovery of costs described in Finding of Fact 12 through issuance of Securitized Utility Tariff Bonds as provided in this Financing Order should be approved because customers will receive net quantifiable rate benefits under this securitization when compared to the costs that would result from the Application of the traditional method of financing and recovering the Securitized Utility Tariff Costs with respect to Qualified Extraordinary Costs or that would avoid or mitigate rate impacts to customers.

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[78] Emergency Order, Page 2, paragraph 4.

3. Issuance Advice Letter

14. Because the actual structure and pricing of the Securitized Utility Tariff Bonds will not be known at the time this Financing Order is issued, following determination of the final terms of the Securitized Utility Tariff Bonds and prior to issuance of the Securitized Utility Tariff Bonds, Kansas Gas Service will file with the Commission, and no later than the end of the first business day after the pricing date for that series of Securitized Utility Tariff Bonds, an Issuance Advice Letter. The Issuance Advice Letter for the Securitized Utility Tariff Bonds will report the actual dollar amount of the initial Securitized Utility Tariff Charges and other information specific to the Securitized Utility Tariff Bonds. All amounts that require computation will be computed using the mathematical formulas contained in the form of the Issuance Advice Letter in Appendix A to this Financing Order and the WESCR. The initial Securitized Utility Tariff Charges and the final terms of the Securitized Utility Tariff Bonds set forth in the Issuance Advice Letter shall become effective on the date of issuance of the Securitized Utility Tariff Bonds unless prior to noon on the fourth business day after pricing the Commission issues a Disapproval Letter pursuant to K.S.A. § 66-1,241(h)(4), finding that the proposed issuance does not comply with the requirements of the Act and this Financing Order.

15. Kansas Gas Service will submit a draft Issuance Advice Letter to Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing the Securitized Utility Tariff Bonds. Within one week after receipt of the draft Issuance Advice Letter, Commission Staff will provide Kansas Gas Service comments and recommendations regarding the adequacy of the information provided.

16. The Issuance Advice Letter for the Securitized Utility Tariff Bonds shall be filed with the Commission not later than the end of the first day after the pricing of the Securitized Utility Tariff Bonds. Commission Staff may request such revisions of the Issuance Advice Letter as may be necessary to assure the accuracy of the calculations and that the requirements of the Act and of this Financing Order have been met. Kansas Gas Service may proceed with the issuance of the Securitized Utility Tariff Bonds unless, prior to noon on the fourth business day after the Commission receives the Issuance Advice Letter, the Commission issues a disapproval letter directing that the Securitized Utility Tariff Bonds as proposed shall not be issued and the basis for that disapproval.

17. The completion and filing of an Issuance Advice Letter in the form of the Issuance Advice Letter attached as Appendix A is necessary to ensure that any securitization actually undertaken by Kansas Gas Service complies with the terms of this Financing Order.

4. Benefits to Customers

18. K.S.A. § 66-1,241 directs the Commission to ensure that securitization provides net quantifiable rate benefits to customers when compared to the costs that would result from the Application of the traditional method of financing and recovering the Securitized Utility Tariff Costs with respect to Qualified Extraordinary Costs or that would avoid or mitigate rate impacts to customers. An analysis that compares the net present value of the costs to customers that are estimated to result from the issuance of Securitized Utility Tariff Bonds and the costs that would result from the Application of traditional methods of financing and recovery of such Qualified Extraordinary Costs, which Kansas Gas Service has included in its Application, is an appropriate economic analysis to demonstrate whether

securitization provides economic benefits to ratepayers. Likewise, a net present value analysis demonstrates whether securitizing Kansas Gas Service's Qualified Extraordinary Costs provides net quantifiable rate benefits or avoids or mitigates rate impacts to Kansas Gas Service's customers.

19. The financial analysis presented by Kansas Gas Service indicates that securitization of the Qualified Extraordinary Costs plus Financing Costs as requested by Kansas Gas Service is expected to result in approximately $______ million of net quantifiable rate benefits to ratepayers if the Securitized Utility Tariff Bonds are issued at a weighted average interest rate of ______% allowed by this Financing Order and with a ________-year expected life. Using the projected weighted-average interest rate of _____% and a ________-year expected life, the benefits of securitization would be approximately $______ million. These estimates assume that actual Ongoing Financing Costs will be as shown on Appendix C to this Financing Order. The benefits for consumers set forth in Kansas Gas Service's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, the actual benefit to ratepayers will depend upon market conditions on the date of pricing of the Securitized Utility Tariff Bonds and the actual scheduled maturity of the Securitized Utility Tariff Bonds.

20. K.S.A. § 66-1,241(e)(13) requires that the Financing Order contain a statement to ensure that a future rate-making process to reconcile any differences between the actual Securitized Utility Tariff Costs financed by Securitized Utility Tariff Bonds and the final Securitized Utility Tariff Costs incurred by Kansas Gas Service or its assignee shall not affect the amount of Securitized Utility Tariff Bonds or the associated Securitized Utility Tariff Charges paid by customers. The Commission finds that this requirement, as

reflected in Ordering Paragraph 32, provides customers with additional assurance that rate impacts to customers will be mitigated or avoided.

C. Structure of the Proposed Securitization

1. Special Purpose Entity

21. For purposes of this securitization, Kansas Gas Service will form a Delaware limited liability company special purpose subsidiary (the "SPE") with Kansas Gas Service as its sole member. The SPE will be formed for the limited purpose of acquiring Securitized Utility Tariff Property, issuing Securitized Utility Tariff Bonds in one or more tranches or classes, and performing other activities relating thereto or otherwise authorized by this Financing Order. The SPE will not be permitted to engage in any other activities and will have no assets other than Securitized Utility Tariff Property and related assets to support its obligations under the Securitized Utility Tariff Bonds. Obligations relating to the Securitized Utility Tariff Bonds will be the SPE's only significant liabilities. These restrictions on the activities of the SPE and restrictions on the ability of ONE Gas or Kansas Gas Service to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy remote and not affected by a bankruptcy of ONE Gas or Kansas Gas Service.

22. The SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as the Securitized Utility Tariff Bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with Kansas Gas Service other than possibly acting as an independent manager

for one or more other bankruptcy-remote subsidiaries of ONE Gas, Kansas Gas Service, or their affiliates.

23. The SPE will not be permitted to amend the provisions of its limited liability agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager. Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the credit rating agencies. The Commission agrees that these restrictions to ensure that the SPE is bankruptcy-remote are reasonable.

24. Per credit rating agency and any requirements of the Internal Revenue Service ("IRS"), Kansas Gas Service will transfer to the SPE an amount required to capitalize the SPE adequately (the "SPE Capitalization Level") for deposit into the capital sub-account. The SPE Capitalization Level is expected to be 0.5% of the initial principal amount of the Securitized Utility Tariff Bonds to be issued by the SPE or such greater amount as might be needed to meet IRS or credit rating agency requirements. The actual SPE Capitalization Level will depend on any IRS and credit rating agency requirements. Moreover, the Commission confirms that the SPE will be an "assignee" as defined in K.S.A. § 66-1,240(b)(4), when ownership of the Securitized Utility Tariff Property is transferred to such SPE and such SPE may issue Securitize Utility Tariff Bonds in accordance with this Financing Order.

25. When Kansas Gas Service transfers its rights to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of K.S.A. § 66-1,246, then that transfer will be a "true sale" of an interest in Securitized Utility Tariff Property and not a secured transaction or other financing arrangement and title, legal and equitable, to the Securitized Utility Tariff Property will pass to the SPE. The transfer of an interest in Securitized Utility Tariff Property to an assignee will be perfected against all parties having claims of any kind in tort, contract or otherwise against the person granting the security interest and regardless of whether the parties have notice of the security interest, and a security interest in the Securitized Utility Tariff Property shall be perfected against all claims of lien creditors and shall have priority over all competing security interests and other claims other than any security interest previously perfected in accordance with the Act. The priority of a lien and security interest perfected should not be impaired by any later change in the Securitized Utility Tariff Charges pursuant to the Adjustment Mechanism or by the commingling of funds arising from Securitized Utility Tariff Charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a Financing Party.

26. The SPE will issue the Securitized Utility Tariff Bonds in one or more tranches, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the Indenture Trustee, as collateral for payment of the Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property, including the SPE's right to receive the Securitized Utility Tariff Charges when collected, as described in Kansas Gas Service's Application.

27. The scheduled final maturity of the last tranche of Securitized Utility Tariff Bonds will not exceed _________ years (although the legal final maturity of the Securitized Utility Tariff Bonds may extend to 32 years).

28. Concurrent with the issuance of any of the Securitized Utility Tariff Bonds, Kansas Gas Service will transfer to the SPE the Securitized Utility Tariff Property approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of K.S.A. § 66-1,256(a). By virtue of the transfer, the SPE will acquire all of the right, title, and interest of Kansas Gas Service in the Securitized Utility Tariff Property arising under this Financing Order.

29. The use and proposed structure of the SPE and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the Securitized Utility Tariff Charges. Therefore, the use and proposed structure of the SPE should be approved.

2. Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

30. The primary form of credit enhancements are the true-up process established with the Adjustment Mechanism and the capital sub-account. Kansas Gas Service requested approval to use additional forms of credit enhancement (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts) and other mechanisms designed to promote the credit quality and marketability of the Securitized Utility Tariff Bonds. In connection with implementing any such other credit enhancement, the Company may enter into one or more "ancillary agreements." Under K.S.A. 66-1,240(b)(3), an "ancillary

agreement" means a bond, insurance policy, letter of credit, reserve account, surety bond, interest rate lock or swap arrangement, hedging agreement, liquidity, or credit support arrangement.

31. Kansas Gas Service also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of Qualified Extraordinary Costs to be securitized. Kansas Gas Service should be permitted to recover the ongoing costs of credit enhancements and arrangements to enhance marketability, provided that the Commission's designated representative and Kansas Gas Service agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. This finding does not apply to the collection account or its sub-accounts approved in this Financing Order.

32. Kansas Gas Service's proposed use of credit enhancements and arrangements to enhance marketability is reasonable and should be approved, provided that Kansas Gas Service certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative.

3. Securitized Utility Tariff Property

33. Under K.S.A. § 66-1,246(c), the rights to impose, collect, and receive Securitized Utility Tariff Charges (including all other rights of a utility under the Financing Order) are only contract rights until such rights are first transferred to an assignee or pledged in connection with the issuance of Securitized Utility Tariff Bonds, at which time they will become Securitized Utility Tariff Property. That transfer will be a true sale of an interest in Securitized Utility Tariff Property and not a secured transaction or other financing

arrangement and title, legal and equitable, to the Securitized Utility Tariff Property will pass to the SPE.

34. The rights to impose, collect, and receive the Securitized Utility Tariff Charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become Securitized Utility Tariff Property upon the transfer of such rights by Kansas Gas Service to the SPE pursuant to K.S.A. § 66-1,246(c). The rights to impose, collect and receive Securitized Utility Tariff Charges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the Qualified Extraordinary Costs that remains unsecuritized shall remain with Kansas Gas Service and shall not become Securitized Utility Tariff Property until transferred to the SPE in connection with a subsequent issuance of Securitized Utility Tariff Bonds.

35. Securitized Utility Tariff Property and all other collateral will be held and administered by the Indenture Trustee pursuant to the Indenture, as described in Kansas Gas Service's Application and the testimony of Mr. Charles Atkins. This proposal will help ensure the lowest bond charges.

36. Under K.S.A. §§ 66-1,244(a)-(b), Securitized Utility Tariff Property constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist until Securitized Utility Tariff Bonds issued pursuant to the Financing Order have been paid in full and all Financing Costs and other costs of such Securitized Utility Tariff Bonds have been recovered in full.

4. Servicer and the Servicing Agreement

37. Kansas Gas Service will execute a Servicing Agreement with the SPE. The entity responsible for carrying out the servicing obligations under any Servicing Agreement is the Servicer. Kansas Gas Service will be the initial Servicer but may be succeeded as Servicer by another entity under certain circumstances detailed in the Servicing Agreement, a form of which is attached hereto as Appendix D, and as hereby incorporated into this Financing Order, approved, and authorized by the Commission.

38. Pursuant to the Servicing Agreement, the Servicer will be required, among other things, to bill and collect the applicable Securitized Utility Tariff Charges for the benefit and account of the SPE, to make the periodic true-up adjustments of Securitized Utility Tariff Charges as required or allowed by this Financing Order, and to account for and remit the applicable Securitized Utility Tariff Charges to, or for the account of the SPE, in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the Servicing Agreement).

39. Under the terms of the Servicing Agreement, if the Servicer fails to perform its servicing obligations in any material respect it shall be considered a default under the Servicing Agreement and the Indenture Trustee, acting under the Indenture to be entered into in connection with the issuance of the Securitized Utility Tariff Bonds, or the Indenture Trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of Securitized Utility Tariff Bonds shall, appoint an alternate party to replace the defaulting Servicer (the "Replacement Servicer"), in which case the

Replacement Servicer will perform the obligations of the Servicer under the Servicing Agreement. The obligations of the Servicer under the Servicing Agreement and the circumstances under which an alternate Servicer may be appointed will be more fully described in the Servicing Agreement. The rights of the SPE under the Servicing Agreement will be included in the collateral pledged to the Indenture Trustee under the Indenture for the benefit of holders of the Securitized Utility Tariff Bonds.

40. The Servicing Agreement shall include a provision that Kansas Gas Service shall indemnify the Commission (for the benefit of consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from Kansas Gas Service's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the Servicing Agreement. The indemnity will be enforced by the Commission but will not be enforceable by any consumer.

41. The proposed Servicing Agreement and servicing obligations of the Servicer are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower bond charges and greater benefits to customers and should be approved.

5. Securitized Utility Tariff Bonds

42. Securitized Utility Tariff Bonds will be issued in in one or more tranches. The legal final maturity date of any tranche of the Securitized Utility Tariff Bonds will not exceed 32 years from the date of issuance. The legal final maturity date of each tranche and amounts in each tranche will be finally determined by Kansas Gas Service and the Commission's designated representative, consistent with market conditions and indications of the rating agencies, at the time the Securitized Utility Tariff Bonds are priced, but subject to ultimate

Commission review through the Issuance Advice Letter process. Kansas Gas Service will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning Securitized Utility Tariff Property arising under this Financing Order, or to cause the issuance of any Securitized Utility Tariff Bonds authorized in this Financing Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of the Act and this Financing Order. The SPE will issue the Securitized Utility Tariff Bonds on or after the fifth business day after pricing of the Securitized Utility Tariff Bonds unless, prior to noon on the fourth business day following pricing of the Securitized Utility Tariff Bonds, the Commission issues a Disapproval Letter finding that the proposed issuance does not comply with the requirements of the Act or this Financing Order.

43. The Commission finds that the proposed structure is in the public interest and should be used. The proposed structure is reasonable and should be approved, provided that the structure may be modified based upon rating agency and market considerations, as long as the final Issuance Advice Letter demonstrates that all of the statutory financial requirements are met. This restriction is necessary to ensure that the stated economic benefits to customers materialize.

6. Security for Securitized Utility Tariff Bonds

44. The payment of the Securitized Utility Tariff Bonds and related charges authorized by this Financing Order is to be secured by the Securitized Utility Tariff Property created by this Financing Order. The Securitized Utility Tariff Bonds will be issued pursuant to an Indenture and series supplement administered by the Indenture Trustee. The Indenture will

include provisions for a collection account and sub-accounts for the collection and administration of the Securitized Utility Tariff Charges and payment or funding of the principal and interest on the Securitized Utility Tariff Bonds and other costs, including fees and expenses, in connection with the Securitized Utility Tariff Bonds, as described in Kansas Gas Service's Application. Pursuant to the Indenture, the SPE will establish a collection account as a trust account to be held by the Indenture Trustee as collateral for the payment of the scheduled principal, interest, and other costs approved in this Financing Order related to the Securitized Utility Tariff Bonds in full and on a timely basis. The collection account will include the general sub-account, the capital sub-account, and the excess funds sub-account, and may include other sub-accounts.

a. The General Sub-account

45. The Indenture Trustee will deposit the Securitized Utility Tariff Charge remittances that the Servicer remits to the Indenture Trustee for the account of the SPE into the general sub-account. The Indenture Trustee will on a periodic basis allocate or use all amounts in this sub-account to pay expenses of SPE, to pay principal and interest on the Securitized Utility Tariff Bonds, and to meet the funding requirements of the other sub-accounts. The funds in the general sub-account will be invested by the Indenture Trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the Indenture Trustee to pay principal and interest on the Securitized Utility Tariff Bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact 68), and otherwise in accordance with the terms of the Indenture.

b. The Capital Sub-account

46. When the Securitized Utility Tariff Bonds are issued, Kansas Gas Service will make a capital contribution to the SPE for that series, which the SPE will deposit into the capital sub-account. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of the Securitized Utility Tariff Bonds, although the actual amount will depend on tax and rating agency requirements. The capital sub-account will serve as collateral to ensure timely payment of principal and interest on the Securitized Utility Tariff Bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact 68). Any funds drawn from the capital sub-account to pay these amounts due to a shortfall in the Securitized Utility Tariff Charge remittances will be replenished through future Securitized Utility Tariff Charge remittances.

47. The funds in capital sub-account will be invested by the Indenture Trustee in short-term high-quality investments, and such funds (including investment earnings) will be available to be used by the Indenture Trustee to pay principal and interest on the Securitized Utility Tariff Bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact 68). Kansas Gas Service will be authorized to receive an annual return on the capital contribution at Kansas Gas Service's then-authorized cost of capital. The required revenue, if any, to provide an annual return on any such additional capital at Kansas Gas Service's then-authorized cost of capital is an Ongoing Financing Cost. Upon payment of the principal amount of all Securitized Utility Tariff Bonds and the discharge of all obligations that may be paid by use of Securitized Utility Tariff Charges, all amounts in the capital sub-account, including any investment earnings, will be released to the SPE

for payment to Kansas Gas Service. Investment earnings in this sub-account may be released earlier in accordance with the Indenture.

48. The capital sub-account, funded by a capital contribution by Kansas Gas Service of an amount equal to 0.5% of the initial principal balance of the Securitized Utility Tariff Bonds, will serve as a credit enhancement of the transaction. To ensure that customers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the Securitized Utility Tariff Bonds should not be applied towards this capital contribution. Because Kansas Gas Service funds the capital sub-account, Kansas Gas Service should receive the authorized cost of capital and the investment earnings on that capital, and if Kansas Gas Service is required to make a capital contribution in excess of 0.5% of the original Securitized Utility Tariff Bonds, Kansas Gas Service should receive the annual return on any such additional capital contribution, from time to time, and should receive a return of all capital contributions after all Securitized Utility Tariff Bonds have been paid. So long as no event of default under the Indenture has occurred and is continuing, and the Periodic Payment Requirement is satisfied, such earnings and return on amounts in the capital sub-account shall be released to Kansas Gas Service as provided in the Indenture.

c. The Excess Funds Sub-account

49. The excess funds sub-account will hold any Securitized Utility Tariff Charge remittances and investment earnings on the collection account (other than earnings attributable to the capital sub-account and released under the terms of the Indenture) in excess of the amounts needed to pay current principal and interest on the Securitized Utility Tariff Bonds and to

pay ongoing costs related to the Securitized Utility Tariff Bonds (including, but not limited to, replenishing the capital sub-account). Any balance in or allocated to the excess funds sub-account on a true-up adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The funds in this sub-account will be invested by the Indenture Trustee in short-term high-quality investments, and such funds (including investment earnings thereon) will be available to be used by the Indenture Trustee to pay principal and interest on the Securitized Utility Tariff Bonds and other ongoing costs relating to the Securitized Utility Tariff Bonds.

d. Other Sub-accounts

50. Other credit enhancements in the form of sub-accounts may be used for the transaction provided that the Commission's designated representative and Kansas Gas Service agree in advance that such enhancements provide benefits greater than their tangible and intangible costs. If the Commission's designated representative and Kansas Gas Service subsequently agree that use of an over-collateralization sub-account or other sub-account is necessary to obtain such tax treatment or AAA ratings or will otherwise increase the tangible and quantifiable benefits of the securitization, Kansas Gas Service may implement such sub-accounts in order to reduce Securitized Utility Tariff Charges.

7. General Provisions

51. The collection account and the sub-accounts described above are intended to provide for full and timely payment of scheduled principal and interest on the Securitized Utility Tariff Bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact 68). If the amount of Securitized Utility Tariff Charges remitted to the

general sub-account is insufficient to make all scheduled payments of principal and interest on the Securitized Utility Tariff Bonds and to make payment on all of the other components of the Periodic Payment Requirement, the excess funds sub-account, and the capital sub-account will be drawn down, in that order, to make those payments. Any deficiency in the capital sub-account due to such withdrawals must be replenished on a periodic basis through the Adjustment Mechanism. In addition to the foregoing, there may be such additional accounts and sub-accounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Such accounts will be administered and used as set forth in the Servicing Agreement and the Indenture. Upon the maturity of the Securitized Utility Tariff Bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital sub-account, will be released to the SPE and equivalent amounts will be credited by Kansas Gas Service to customers. The Indenture Trustee will distribute to Kanas Gas Service the final balance of the sub-accounts.

52. The use of a collection account and its sub-accounts in the manner proposed by Kansas Gas Service is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

8. Securitized Utility Tariff Charges—Imposition and Collection, Nonbypassability, Settlement Fee

53. Kansas Gas Service seeks authorization to impose on and collect from customers Securitized Utility Tariff Charges in an amount sufficient to provide for the timely payment

of principal and interest on the Securitized Utility Tariff Bonds and Financing Costs related to the Securitized Utility Tariff Bonds.

54. Securitized Utility Tariff Charges are nonbypassable charges that will be paid by all existing or future sales customers receiving natural gas service from the public utility or its successors or assignees under Commission-approved rate schedules or under special contracts, even if a retail customer elects to purchase natural gas from an alternative natural gas supplier following a fundamental change in regulation of public utilities in Kansas. The nonbypassable Securitized Utility Tariff Charges are applicable to existing or future sales customers located within Kansas Gas Service's service area, as such service area exists on the date of this Financing Order, and, as this Financing Order so provides, at the discretion of Kansas Gas Service, as such service area may be expanded or acquired.

55. Securitized Utility Tariff Charges will be calculated on a fixed monthly charge per customer, pursuant to the method described in the WESCR, a pro forma copy of which is contained in Appendix B. The fixed monthly per-customer Securitized Utility Tariff Charge will be adjusted semi-annually pursuant to the Adjustment Mechanism described below. The per-customer charge initially will be calculated using the customer count reported in the most recent Kansas Gas Service Annual Report and will be updated semi-annually. Additionally, if the customer count for a particular class declines by more than ten percent (10%) from that identified in the 2020 Annual Report, then the allocation factors will be recalculated using the most recent 12-month weather normalized volume for each customer class.

56. Securitized Utility Tariff Charges will be separately identified on bills presented to customers. Billing will begin with the first billing cycle of the month following bond issuance.

57. The Securitized Utility Tariff Bonds will have a scheduled maturity of not longer than __________ years. The legal final maturity of any tranche of the Securitized Utility Tariff Bonds may be longer than the scheduled final maturity of such tranche, based upon rating agency and market considerations, but in no event shall the final legal maturity of any tranche exceed 32 years.

58. Kansas Gas Service, acting as Servicer, and any subsequent Servicer, will collect Securitized Utility Tariff Charges from all existing and future sales customers located within Kansas Gas Service's service area, as such service area exists on the date of this Financing Order. Kansas Gas Service should be granted the opportunity, but not the obligation, to collect Securitized Utility Tariff Charges from all existing and future sales customers located in any such service area as may be expanded or acquired in the future. Unless otherwise prohibited by law, Securitized Utility Tariff Charges will not be charged to transportation customers. In accordance with the Settlement in Docket No. 21-KGSG-332-GIG, sales customers who become transportation customers during the period Securitized Utility Tariff Charges are being recovered shall be required to pay a settlement fee prior to becoming a transportation customer. The settlement fee owed by the customer shall be based on the estimated present value of the expected charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered. The charges shall use a discount rate of two percent (2%) consistent with the carrying charge identified in the Financial Plan Settlement. This

settlement fee will be credited to Kansas Gas Service's other sales customers once a year through its COGR/ACA.

59. Kansas Gas Service's proposal related to imposition and collection of Securitized Utility Tariff Charges, the nonbypassability of such charges, and the imposition of a settlement fee on sales customers that become transportation customers is reasonable and is necessary to ensure collection of Securitized Utility Tariff Charges sufficient to support recovery of the Qualified Extraordinary Costs plus Financing Costs should be approved. It is reasonable to approve Kansas Gas Service's Form of Tariff, attached hereto as Exhibit B (WESCR) in this Financing Order and require that these tariff provisions be filed before any Securitized Utility Tariff Bonds are issued pursuant to this Financing Order.

9. Allocation of Qualified Extraordinary Costs and Ongoing Financing Costs among Sales Customer Classes

60. Kansas Gas Service proposed that a single allocation percentage be developed for each Securitized Utility Tariff Charge class and that such percentages be set forth in the WESCR.

61. Kansas Gas Service proposes to allocate Securitized Utility Tariff Charges and Financing Costs (collectively, "Customer Charges") to its sales customer classes based on each customer classes' percentage of the total estimated February 2021 sales volumes. The proposed allocation method is as follows:

Customer Class	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.953%
General Service - Small	870,171	8.794%
General Service - Large	1,037,545	10.486%
General Service - Transport Eligible	170,496	1.723%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	-	0.000%
	9,894,787	100.000%

Kansas Gas Service must remove 0.067% of the Qualified Extraordinary Costs to be securitized to account for "Sales for Resale" customer class as these are wholesale transactions that do not constitute retail service.

62. The Servicer is responsible for assessing and collecting Customer Charges. The procedures for assessing, collecting, and remitting Customer Charges are detailed in the Servicing Agreement, attached hereto as Appendix D. Customer Charges received by the Servicer shall be remitted to the Indenture Trustee each business day based on estimated amounts collected, with cash held no more than two business days prior to remittance. The Indenture Trustee shall hold Customer Charge amounts received from the Servicer until the next payment date. In the event that an entity not the Servicer (e.g., a third party energy provider or collection agent) assesses or collects Customer Charges, such entity is bound to the requirements of this Financing Order for any such assessment, collection, or remittance of Customer Charges.

63. The methodology for allocating Customer Charges and developing the initial percentages as described above is reasonable and appropriate and should be approved.

64. Except for customers outside of Kansas Gas Service's service area as it exists on the date of this Financing Order which are subsequently acquired by Kansas Gas Service, customers will be assigned to the Securitized Utility Tariff Charge classes listed in the WESCR based on the definitions and procedures described in the WESCR. Customers outside of Kansas Gas Service's service area as it exists on the date of this Financing Order may become subject to Securitized Utility Tariff Charges at the time Kansas Gas Service files an application to expand its service area. As long as the Securitized Utility Tariff Charges are being collected, any application to expand or acquire service area by Kansas Gas Service will detail whether customers located within the expanded or acquired service area will be assessed Securitized Utility Tariff Charges.

65. The initial percentages will remain in effect throughout the life of the Securitized Utility Tariff Bonds. Notwithstanding the above, the customer classes are cross-collateralized in the Adjustment Mechanism, meaning that projected revenue shortfalls in one customer class are remedied by adjustments to the Securitized Utility Tariff Charges for each customer class, not only the customer class with the projected revenue shortfalls.

66. The method of calculating percentages as set forth in Kansas Gas Service's Application and the WESCR complies with the requirements of the Act and should be approved.

10. True-Up of Securitized Utility Tariff Charges

67. Pursuant to K.S.A. § 66-1,240(b)(2), the Servicer of the Securitized Utility Tariff Bonds will make semi-annual adjustments to the Securitized Utility Tariff Charges to:

(a) correct any under-collection or over-collection of Securitized Utility Tariff Charges during the preceding 6 months; and

(b) ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Securitized Utility Tariff Bonds.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." The Servicer will make true-up adjustment filings with the Commission at least semi-annually.

68. True-up filings will be based on the cumulative differences, regardless of the reason, between scheduled principal and interest payments and Ongoing Financing Costs on the Securitized Utility Tariff Bonds and the amount of Securitized Utility Tariff Charge remittances to the Indenture Trustee. The true-up mechanism is cross-collateralized across customer classes, meaning that any projected under-collection in one customer class requires an adjustment of charges for that customer class as well as of the other customer classes. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the Securitized Utility Tariff Bonds.

69. The Servicer will make true-up adjustments in the manner described in the Servicing Agreement, attached hereto as Appendix D.

11. Interim True-Up

70. In addition to semi-annual true-up adjustments, true-up adjustments may be made by the Servicer more frequently at any time during the term of the Securitized Utility Tariff Bonds to correct any under-collection or over-collection, as provided for in this Financing Order, in order to assure timely payment of Securitized Utility Tariff Bonds as scheduled.

71. In the event an interim true-up is necessary, the interim true-up adjustment should be filed by the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly Securitized Utility Tariff Bond payments are required or every six months if semi-annual bond payments are required; provided, however, that quarterly true-up adjustments for any Securitized Utility Tariff Bonds remaining outstanding during the year immediately preceding scheduled final maturity of the last tranche of Securitized Utility Tariff Bonds.

12. Additional True-Up Provisions

72. The true-up adjustment filing will set forth the Servicer's calculation of the true-up adjustment to the Securitized Utility Tariff Charges. The Commission will have 30 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the Servicer's adjustment and to confirm that there are no clerical errors. Any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 30 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical or clerical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

73. The true-up procedures contained in the WESCR are reasonable and will reduce risks related to the Securitized Utility Tariff Bonds, resulting in lower bond charges and greater benefits to ratepayers and should be approved.

74. The broad-based nature of the true-up mechanism and the pledge of the State of Kansas, along with the bankruptcy remoteness of the SPE and the collection account, will serve to minimize credit risk and support the highest ratings.

13. Lowest Bond Charges

75. Kansas Gas Service has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of the SPE as issuer of the Securitized Utility Tariff Bonds, limiting the risks to bondholders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect Securitized Utility Tariff Charges that are nonbypassable and which must be trued-up at least semi-annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital sub-account funded in cash in an amount not less than 0.5% of the original principal amount of the Securitized Utility Tariff Bonds and other sub-accounts resulting in greater certainty of timely payment of interest and principal to investors and that are consistent with the IRS requirements that must be met to receive the desired federal income tax treatment for the Securitized Utility Tariff Bond transaction;

(d) protection of bondholders against potential defaults by a Servicer that is responsible for billing and collecting the Securitized Utility Tariff Charges from existing or future sale customers located within Kansas Gas Service's service area as it exists on the date of this Financing Order, and, at Kansas Gas Service's discretion, from existing or future sales customers located within service areas Kansas Gas Service expands into or acquires after the date of this Financing Order;

(e) the Securitized Utility Tariff Bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, scheduled and legal final maturities, and other aspects of the structuring and pricing will be determined, evaluated, and factored into the structuring and pricing of the Securitized Utility Tariff Bonds; and

(f) furnishing timely information to the Commission's designated representative, to allow the Commission, through the Issuance Advice Letter process, to ensure that the structuring and pricing of the Securitized Utility Tariff Bonds result in the lowest bond charges consistent with market conditions at the time the Securitized Utility Tariff Bonds are priced and the terms of this Financing Order.

76. Kansas Gas Service's proposed transaction structure is necessary to enable the Securitized Utility Tariff Bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the Securitized Utility Tariff Bonds will result in the lowest bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to customers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the gas market.

D. Use of Proceeds

77. Upon the issuance of Securitized Utility Tariff Bonds, the SPE will use the net proceeds from the sale of the Securitized Utility Tariff Bonds (after payment of transaction costs) to pay to Kansas Gas Service the purchase price of the Securitized Utility Tariff Property.

78. The net proceeds from the sale of the Securitized Utility Tariff Property (after payment of transaction costs) will be applied to recover Kansas Gas Service's Qualified Extraordinary Costs incurred because of the Winter Event.

E. Method of Tracing Funds

79. Kansas Gas Service's Application also contains a method of tracing funds collected as Securitized Utility Tariff Charges. The Securitized Utility Tariff Charges collected from customers will be placed on a separate line on customers' bills, allowing the Company to assign the Securitized Utility Tariff Charges a specific code, by customer class, in its billing system. This code will allow the Company to trace proceeds from the Securitized Utility Tariff Charges.

F. Reconciliation Plan

80. Kansas Gas Service's Application contains a reconciliation proposal. As contemplated by the Financial Plan Settlement, this proposal considers both the deferred tax liability associated with Qualified Extraordinary Cost recoveries, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carry-forward created by the Qualified Extraordinary Costs.

G. Customer Communications Plan

81. Kansas Gas Service shall provide information regarding the benefits of securitization to customers as set forth in the Customer Communications Plan, attached hereto as Appendix F.

H. State Pledge

82. Pursuant to K.S.A. § 66-1,252(a), the State of Kansas and its agencies, including the Commission, have pledged and agreed with bondholders, the owners of the Securitized Utility Tariff Property and other financing parties that the state and its agencies shall not:

- Alter the statute that authorizes the Commission to create an irrevocable contract right or chose in action by the issuance of a Financing Order, to create securitized utility tariff property and to make the Securitized Utility Tariff Charges imposed by a Financing Order irrevocable, binding or nonbypassable charges for all existing and future sales customers within the service area of the public utility;

- Take any action that would impair the value of Securitized Utility Tariff Property or the security for the Security Utility Tariff Bonds, or revises the Securitized Utility Tariff Costs for which recovery is authorized; impair the rights and remedies of the bondholders, assignees and other financing parties in any way; or,

- Except for changes made pursuant to the Adjustment Mechanism expressly allowed by law, reduce, alter, or impair the Securitized Utility Tariff Charges to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties, until any and all principal, interest, premium, Financing Costs and other fees, expenses or charges incurred and any contracts to be performed in connection with the related Securitized Utility Tariff Bonds have been paid and performed in full.

IV. Conclusions of Law

1. Kansas Gas Service is a natural gas public utility, as defined in K.S.A. § 66-1.200.

2. Kansas Gas Service is entitled to file an Application for a Financing Order under K.S.A. § 66-1,241(b).

3. The Commission has jurisdiction and authority over Kansas Gas Service's Application pursuant to K.S.A. § 66-1,241(b).

4. The Commission has authority to issue this Financing Order under K.S.A. § 66-1,241(d).

5. Kansas Gas Service's Application is in the public interest and complies with Commission rules.

6. K.S.A. § 66-1,241 allows a public utility to securitize its Qualified Extraordinary Costs.

7. The SPE will be an assignee as defined in K.S.A. § 66-1,240(b)(4) when an interest in Securitized Utility Tariff Property is transferred, other than as security, to the SPE.

8. The holders of the Securitized Utility Tariff Bonds and the Indenture Trustee will each be a Financing Party as defined in K.S.A. § 66-1,240(b)(12).

9. The securitization approved in this Financing Order satisfies the requirement of K.S.A. § 66-1,241(d)(2) mandating that the proposed issuance of Securitized Utility Tariff Bonds and the imposition and collection of Securitized Utility Tariff Charges are expected to provide net quantifiable rate benefits to customers as compared to the traditional methods of financing and recovering Securitized Utility Tariff Costs from customers or would avoid or mitigate rate impacts to customers. An analysis that compares the net present value of the costs to customers that are estimated to result from the issuance of Securitized Utility Tariff Bonds and the costs that would result from the Application of traditional methods of financing and recovery of such Qualified Extraordinary Costs, which Kansas Gas Service has included in its Application, is an appropriate economic analysis to demonstrate whether securitization provides the requisite benefits to customers.

10. The SPE's issuance of the Securitized Utility Tariff Bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of K.S.A. § 66-1,241(e)(5) that the structuring, pricing and Financing Costs of the Securitized Utility Tariff Bonds are expected to result in the lowest Securitized Utility Tariff Charges, consistent with market conditions at the time the Securitized Utility Tariff Bonds are priced and the terms of the Financing Order.

11. This Financing Order adequately details the amount to be recovered and the period over which Kansas Gas Service will be permitted to recover nonbypassable Securitized Utility Tariff Charges in accordance with the requirements of K.S.A. §§ 66-1,241(e)(1), (6).

12. The payment of a Securitized Utility Tariff Charge may not be avoided by any existing or future sales customer, including special contract customers, located within Kansas Gas Service's service area, as such service area existed on the date of this Financing Order, or, if the Financing Order so provides, as such service area may be expanded, even if the customer elects to purchase natural gas from a supplier other than Kansas Gas Service, or its successors or assignees, or receives natural gas service from another natural gas service utility operating in the same service area. Kansas Gas Service shall have the option, but not the obligation, to impose Securitized Utility Tariff Charges on existing or future sales customers in service areas expanded or acquired following the issuance of this Financing Order.

13. The method approved in this Financing Order for collecting and allocating the Securitized Utility Tariff Charges satisfies the requirements of K.S.A. § 66-1,241(e)(2)(A).

14. The Customer Communications Plan approved in this Financing Order for providing information regarding the benefits of securitization obtained for customers through this Financing Order satisfies the requirements of K.S.A. § 66-1,241(e)(4).

15. As provided in K.S.A. § 66-1,241(h)(1), this Financing Order, together with the Securitized Utility Tariff Charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for true-up adjustments made in accordance with the Adjustment Mechanism approved in this

Financing Order; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of Securitized Utility Tariff Bonds if requested to do so by Kansas Gas Service.

16. As provided in K.S.A. § 66-1,246(c), the rights and interests of Kansas Gas Service or its successor under this Financing Order, including the right to impose, collect and receive the Securitized Utility Tariff Charges authorized in this Financing Order, are assignable and shall become Securitized Utility Tariff Property when they are first transferred to the SPE.

17. The rights, interests and property conveyed to the SPE in a Securitized Utility Tariff Property Purchase and Sale Agreement (the "Sales Agreement"), a form of which is attached hereto as Appendix E, and the related Bill of Sale, including the irrevocable right to impose, collect and receive Securitized Utility Tariff Charges and the revenues and collections from Securitized Utility Tariff Charges are "Securitized Utility Tariff Property" within the meaning of K.S.A. § 66-1,240(22), and all revenues and collections resulting from the Securitized Utility Tariff Charges will constitute proceeds only of the Securitized Utility Tariff Property arising from this Financing Order.

18. Upon the transfer by Kansas Gas Service of the Securitized Utility Tariff Property to the SPE, the SPE will have all of the rights, title and interest of Kansas Gas Service in the portion of the Securitized Utility Tariff Property arising under this Financing Order that is related to the amount of Securitized Utility Tariff Bonds the SPE issues, including the right to impose, collect and receive the Securitized Utility Tariff Charges authorized by the Financing Order.

19. The Securitized Utility Tariff Bonds issued pursuant to this Financing Order will be "Securitized Utility Tariff Bonds" within the meaning of K.S.A. § 66-1,240(19)(A), and the Securitized Utility Tariff Bonds and holders thereof are entitled to all of the protections provided under the Act.

20. The Securitized Utility Tariff Charges paid by the sales customers to the Servicer as Securitized Utility Tariff Charges pursuant to this Financing Order are "Securitized Utility Tariff Charges" as defined in K.S.A. § 66-1,240(b)(20).

21. As provided in K.S.A. § 66-1,244(e), the interests of an assignee, the holders of Securitized Utility Tariff Bonds, and the Indenture Trustee in Securitized Utility Tariff Property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by Kansas Gas Service or any other person or in connection with the reorganization, bankruptcy or other insolvency of Kansas Gas Service or any other entity.

22. The Adjustment Mechanism approved in this Financing Order to true-up the Securitized Utility Tariff Charges satisfies the requirements of the Act.

23. If and when Kansas Gas Service transfers to the SPE the right to impose, collect, and receive Securitized Utility Tariff Charges and to issue Securitized Utility Tariff Bonds, the Servicer will be able to recover the Securitized Utility Tariff Charges associated with such Securitized Utility Tariff Property only for the benefit of the SPE and the holders of the Securitized Utility Tariff Bonds in accordance with the Servicing Agreement.

24. As provided in K.S.A. § 66-1,241(e)(12), this Financing Order contains a method of tracing funds collected as Securitized Utility Tariff Charges, or other proceeds of Securitized Utility Tariff Property, demonstrating that such method shall be deemed the method of tracing such funds and determining the identifiable cash proceeds of any Securitized Utility Tariff Property subject to a Financing Order under applicable law.

25. As provided in K.S.A. § 66-1,241(e)(13), this Financing Order contains a statement specifying a future rate-making process to reconcile any differences between the actual Securitized Utility Tariff Costs financed by Securitized Utility Tariff Bonds and the final Securitized Utility Tariff Costs incurred by Kansas Gas Service or assignee provided that any such reconciliation shall not affect the amount of Securitized Utility Tariff Bonds or the associated Securitized Utility Tariff Charges paid by sales customers.

26. If and when Kansas Gas Service transfers its rights under this Financing Order to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of K.S.A. § 66-1,246, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in Securitized Utility Tariff Property and not a secured transaction or other financing arrangement and title, legal and equitable, to the Securitized Utility Tariff Property will pass to the SPE. As provided by K.S.A. § 66-1,246(b), this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the Kansas Gas Service's retention of an equity interest in the SPE, Kansas Gas Service's role as the Servicer, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

27. As provided in K.S.A. §§ 66-1,245(d) and (e) the transfer of an interest in Securitized Utility Tariff Property to an assignee will be perfected against all parties having claims of any kind in tort, contract or otherwise against the person granting the security interest and regardless of whether the parties have notice of the security interest. Without limitation, upon such filing, a security interest in the Securitized Utility Tariff Property shall be perfected against all claims of lien creditors and shall have priority over all competing security interests and other claims other than any security interest previously perfected in accordance with the Act.

28. As provided in K.S.A. §§ 66-1,245(e) and (f), the priority of a lien and security interest perfected in accordance with K.S.A. § 66-1,245(d) will not be impaired by any later change in the Securitized Utility Tariff Charges pursuant to the Adjustment Mechanism or by the commingling of funds arising from Securitized Utility Tariff Charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a Financing Party.

29. As provided in K.S.A. § 66-1,245(e), if Securitized Utility Tariff Property is transferred to an assignee, any proceeds of the Securitized Utility Tariff Property will be treated as held in trust for the assignee.

30. As provided in K.S.A. § 66-1,245(g), if a default occurs under Securitized Utility Tariff Bonds that are secured by a security interest in Securitized Utility Tariff Property, the financing parties or their representatives may exercise the rights and remedies available to a secured party under the code, including the rights and remedies available under K.S.A. Chapter 84, Part 6, Article 9, and amendments thereto, as if they were secured parties with

a perfected and prior lien under the code. The Commission may also order amounts arising from Securitized Utility Tariff Charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest shall apply. On Application by or on behalf of the financing parties, the district court of the county where the public utility's headquarters is located shall order the sequestration and payment to such financing parties of revenues arising from the Securitized Utility Tariff Charges.

31. As provided by K.S.A. § 66-1,250, the Securitized Utility Tariff Bonds authorized by this Financing Order are not a debt or obligation of the State of Kansas and are not a charge on its full faith and credit or taxing power.

32. Pursuant to K.S.A. § 66-1,252(a), the State of Kansas and its agencies, including the Commission, have pledged and agreed with bondholders, the owners of the Securitized Utility Tariff Property and other financing parties that the state and its agencies shall not:

- Alter the statute that authorizes the Commission to create an irrevocable contract right or chose in action by the issuance of a Financing Order, to create securitized utility tariff property and to make the Securitized Utility Tariff Charges imposed by a Financing Order irrevocable, binding or nonbypassable charges for all existing and future sales customers within the service area of the public utility;

- Take any action that would impair the value of Securitized Utility Tariff Property or the security for the Security Utility Tariff Bonds, or revises the Securitized Utility Tariff Costs for which recovery is authorized; impair the rights and remedies of the bondholders, assignees and other financing parties in any way; or,

- Except for changes made pursuant to the Adjustment Mechanism expressly allowed by law, reduce, alter, or impair the Securitized Utility Tariff Charges to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties, until any and all principal, interest, premium, Financing Costs and other fees, expenses or charges incurred and any contracts to be performed in connection with the related Securitized Utility Tariff Bonds have been paid and performed in full.

33. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy or insolvency of ONE Gas, or Kansas Gas Service, or their successors or assignees.

34. Kansas Gas Service retains sole discretion regarding whether or when to assign, sell, or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any Securitized Utility Tariff Bonds authorized by this Financing Order, subject to the Commission's authority through the Issuance Advice Letter process to find that the proposed issuance does not comply with the requirements of the Act and this Financing Order.

35. This Financing Order meets the requirements for a Financing Order under the Act.

V. <u>Ordering Paragraphs</u>

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application.** The Application of Kansas Gas Service for the issuance of a Financing Order under the Act, is approved, as provided in this Financing Order. Kansas Gas Service's Application and accompanying testimony and schedules are incorporated into the record pursuant to this Financing Order.

2. **Authority to Securitize.** Kansas Gas Service is authorized in accordance with this Financing Order to securitize and to cause the issuance of Securitized Utility Tariff Bonds in one or more tranches with an aggregate principal amount equal to $_____________ (the Qualified Extraordinary Costs and Financing Costs).

3. **Imposition of Securitized Utility Tariff Charges.** Kansas Gas Service shall impose on, and the Servicer shall collect from, all sales customers and other entities which, under the terms of this Financing Order or the WESCR are required to pay Securitized Utility Tariff Charges as provided in this Financing Order, Securitized Utility Tariff Charges in an amount sufficient to provide for the timely payment of scheduled principal and interest on the Securitized Utility Tariff Bonds and Ongoing Financing Costs related to the Securitized Utility Tariff Bonds.

4. **Provision of Information.** Kansas Gas Service shall take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision-making authority concerning the proposed securitization as provided in this Financing Order.

5. **Issuance Advice Letter.** Kansas Gas Service shall submit a draft Issuance Advice Letter to Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing of the Securitized Utility Tariff Bonds. Within one week after receipt of the draft Issuance Advice Letter, Commission Staff shall provide Kansas Gas Service comments and recommendations regarding the adequacy of the information provided. Not later than the end of the first day after pricing of the Securitized Utility Tariff Bonds and prior to issuance of the Securitized Utility Tariff Bonds, Kansas Gas Service, in consultation with the Commission acting through its designated representative, shall file with the Commission an Issuance Advice Letter in substantially the form of the Issuance Advice Letter attached as Appendix A to this Financing Order. The Issuance Advice Letter shall be completed, shall evidence the actual dollar amount of the initial Securitized Utility Tariff Charges and other information specific to the Securitized Utility Tariff Bonds to be issued, and shall certify to the Commission that the structure and pricing of the Securitized Utility Tariff Bonds results in the lowest bond charges consistent with market conditions at the time that the Securitized Utility Tariff Bonds are priced, and the terms set out in this Financing Order. All amounts that require computation shall be computed using the mathematical formulas contained in the Form Issuance Advice Letter in Appendix A to this Financing Order and the Form of Tariff (WESCR) attached as Appendix B to this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the Issuance Advice Letter shall be included with such letter. The Commission's review of the Issuance Advice Letter shall be limited to the arithmetic accuracy of the calculations and to compliance with the Act, this Financing Order, and the requirements contained in the Issuance Advice Letter. The initial Securitized Utility Tariff

Charges and the final terms of the Securitized Utility Tariff Bonds set forth in the Issuance Advice Letter shall become effective on the date of issuance of the Securitized Utility Tariff Bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues a Disapproval Letter finding that the proposed Issuance Advice Letter does not comply with the Act and this Financing Order.

6. **Approval of Tariff.** The Form of Tariff (WESCR) attached as Appendix B to this Financing Order is approved. Prior to the issuance of any Securitized Utility Tariff Bonds under this Financing Order, Kansas Gas Service shall file a tariff that conforms to the Form of Tariff (WESCR) attached to this Financing Order.

7. **Customer Communications Plan.** The Customer Communications Plan attached as Appendix F to this Financing Order is approved. Kansas Gas Service shall provide information regarding the benefits of securitization obtained for customers through this Financing Order as set forth in the Customer Communications Plan attached as Appendix F to this Financing Order.

B. Securitized Utility Tariff Charges

8. **Imposition and Collection.** Kansas Gas Service is authorized to impose on, and the Servicer shall collect from, all sales customers and other entities which, under the terms of this Financing Order or the WESCR are required to pay Securitized Utility Tariff Charges as provided in this Financing Order, Securitized Utility Tariff Charges in an amount sufficient to provide for the payment of principal and interest on the Securitized Utility

Tariff Bonds and Ongoing Financing Costs related to the Securitized Utility Tariff Bonds as approved in this Financing Order. Security Utility Tariff Charges will be a separate line item on customers' bills.

9. **SPE's Rights and Remedies.** Upon the transfer by Kansas Gas Service of the Securitized Utility Tariff Property to the SPE, the SPE shall have all of the rights, title, and interest of Kansas Gas Service with respect to such Securitized Utility Tariff Property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto.

10. **Collection Period.** The Securitized Utility Tariff Charges shall be designed to be collected over the scheduled life of the Securitized Utility Tariff Bonds. However, to the extent that any amounts are not recovered at the end of this period, Kansas Gas Service may continue to recover Securitized Utility Tariff Charges over a period ending not more than 32 years from the date of issuance of the Securitized Utility Tariff Bonds. Amounts remaining unpaid after this 32-year period may be recovered but only to the extent that the charges are attributable to services rendered during the 32-year period.

11. **Allocation.** Kansas Gas Service shall allocate the Securitized Utility Tariff Charges among sales customer classes in the manner described in this Financing Order and the WESCR. The Securitized Utility Tariff Charges will be calculated on a fixed monthly charge per customer, pursuant to the method described in the WESCR. The fixed monthly per-customer Securitized Utility Tariff Charge will be adjusted semi-annually pursuant to the Adjustment Mechanism described in this Financing Order. The per-customer charge initially will be calculated using the customer count reported in the most recent Kansas Gas Service Annual Report and will be updated semi-annually. Additionally, if the customer

count for a particular class declines by more than ten percent (10%) from that identified in the 2020 Annual Report, then the allocation factors will be recalculated using the most recent 12-month weather normalized volume for each customer class.

12. **Nonbypassability.** The payment of a Securitized Utility Tariff Charge may not be avoided by any existing or future sales customer, including special contract customers, located within Kansas Gas Service's service area, as such service area existed on the date of this Financing Order, or as such service area may be expanded, even if the customer elects to purchase natural gas from a supplier other than Kansas Gas Service, or its successors or assignees, or receives natural gas service from another natural gas service utility operating in the same service area. Kansas Gas Service shall have the option, but not the obligation, to impose Securitized Utility Tariff Charges discussed in this Financing Order on existing or future sales customers in service areas expanded or acquired following the issuance of this Financing Order. Sales customers who become transportation customers during the period Securitized Utility Tariff Charges are being recovered shall be required to pay a settlement fee prior to becoming a transportation customer. The settlement fee owed by the customer shall be based on the present value of the expected Securitized Utility Tariff Charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered. The settlement fee shall use a discount rate of two percent (2%) consistent with the carrying charge identified in the Financial Plan Settlement. This settlement fee will be credited to Kansas Gas Service's other sales customers once a year through its COGR/ACA.

13. **True-Ups.** True-ups of the Securitized Utility Tariff Charges shall be undertaken and conducted as described in the Form of True-Up attached to this Financing Order as

Appendix C. The Servicer shall file True-Ups in a compliance docket, to be determined by the Commission, and shall give notice of the filing to all parties in this docket.

14. **Semi-Annual True-Ups.** The Servicer of the Securitized Utility Tariff Bonds shall make semi-annual adjustments to the Securitized Utility Tariff Charges to correct any under-collection or over-collection of Securitized Utility Tariff Charges during the preceding six (6) months, and ensure the expected recovery of amounts sufficient to timely provide all payments of scheduled debt service and other required amounts and charges in connection with the Securitized Utility Tariff Bonds.

15. **Interim True-Ups.** The Servicer of the Securitized Utility Tariff Bonds may make interim adjustments to the Securitized Utility Tariff Charges at any time to correct any projected under-collection of Securitized Utility Tariff Charges to assure timely payment of Securitized Utility Tariff Bonds as scheduled, or as otherwise provided for in this Financing Order, as described in this Financing Order or in the WESCR.

C. Securitized Utility Tariff Bonds

16. **Issuance.** Kansas Gas Service is authorized, through the SPE, to issue the Securitized Utility Tariff Bonds as specified in this Financing Order. The Qualified Extraordinary Costs and Ongoing Financing Costs described in the Form Issuance Advice Letter attached to this Financing Order as Appendix A may be recovered directly through the Securitized Utility Tariff Charges. The Securitized Utility Tariff Bonds shall be denominated in U.S. Dollars.

17. **Ongoing Financing Costs.** Kansas Gas Service may recover its incurred and Ongoing Financing Costs through its Securitized Utility Tariff Charges. The amount of Ongoing Financing Costs is subject to updating in the Issuance Advice Letter to reflect a change in the size of the bond issuance and any decision to issue the Securitized Utility Tariff Bonds in more than one series and other information available at the time of submission of the Issuance Advice Letter. As provided in Ordering Paragraph 26, a Servicer other than Kansas Gas Service may collect a higher servicing fee than that set forth in Appendix A to this Financing Order if such higher fee is approved by the Commission and the Indenture Trustee.

18. **Refinancing.** Kansas Gas Service or any assignee may apply for one or more new Financing Orders to retire or refund Securitized Utility Tariff Bonds approved in this Financing Order upon a showing that the statutory criteria are met.

19. **Collateral.** All Securitized Utility Tariff Property and other collateral shall be held and administered by the Indenture Trustee pursuant to the Indenture as described in Kansas Gas Service's Application. The Indenture Trustee shall establish a collection account under the Indenture as described in Findings of Fact 45.

20. **Distribution Following Repayment.** Following repayment of the Securitized Utility Tariff Bonds and all other related amounts authorized in this Financing Order, by the Indenture Trustee shall distribute funds remaining in the general sub-account and the excess funds sub-account to Kansas Gas Service, and equivalent amounts will be credited to sales customers in the form of a credit to their natural gas bills. Monies remaining in the Kansas Gas Service-funded capital sub-account along with the authorized return, will

be returned to the Company through the SPE without any equivalent credit to customers' bills, because the capital sub-account was funded at issuance with the Company's own funds.

21. **Funding of Capital Sub-account.** The capital contribution by Kansas Gas Service to the SPE to be deposited into the capital sub-account shall, be funded by Kansas Gas Service and not from the proceeds of the sale of the Securitized Utility Tariff Bonds. Upon payment of all of the principal amount of all Securitized Utility Tariff Bonds and the discharge of all obligations in respect thereof, all amounts in the capital sub-account, including investment earnings, and any amounts required to replenish the capital sub-account to the level of Kansas Gas Service's capital contribution and any unpaid authorized return on all capital contributions, shall be released to the SPE for payment to Kansas Gas Service. Investment earnings in this sub-account and authorized return on capital contributions in excess of 0.5% of the original principal amount of the Securitized Utility Tariff Bonds, if any, may be released earlier in accordance with the Indenture.

22. **Credit Enhancement.** Kansas Gas Service may provide for various forms of credit enhancement including letters of credit, reserve accounts, overcollateralization account, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the Securitized Utility Tariff Bonds to the extent not prohibited by this Financing Order. The decision to use such arrangements to enhance credit or promote marketability shall be made in conjunction with the Commission acting through its designated representative. Kansas Gas Service may not enter into an interest-rate swap, currency hedge, or other hedging arrangement. Kansas Gas Service shall not be required to enter any arrangements to promote credit quality or marketability unless all related costs and liabilities can be

included in its Ongoing Financing Costs. Kansas Gas Service and the Commission's designated representative shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This ordering paragraph does not apply to the collection account or its sub-accounts approved in this Financing Order.

23. **Life of Bonds.** The legal final maturity of any tranche of the Securitized Utility Tariff Bonds authorized by this Financing Order shall not exceed 32 years.

24. **Commission Participation in Bond Issuance.** The Commission expects its designated representative to advise the Commission of any proposal that does not comply in any material respect with the criteria established in this Financing Order and to promptly inform Kansas Gas Service and the Commission of any items that, in the designated representative's opinion, are not reasonable. Although this Financing Order is written in the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the Securitized Utility Tariff Bonds through a competitive bid offering or private placement if Kansas Gas Service doing so would result in the lowest Securitized Utility Tariff Charges. If the Commission's designated representative finds that the structuring, marketing, or pricing of Securitized Utility Tariff Bonds does not comply with the criteria established in this Financing Order, the designated representative shall notify Kansas Gas Service and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the Issuance Advice Letter for the Securitized Utility Tariff Bonds.

25. **Use of SPE.** Kansas Gas Service shall use the SPE, as proposed in its Application and described in this Financing Order, in conjunction with the issuance of any Securitized Utility Tariff Bonds authorized under this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions and to avoid the possibility that Kansas Gas Service would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE.

D. Servicing and Administration

26. **Servicing Agreement.** The Commission authorizes Kansas Gas Service to enter into a Servicing Agreement with the SPE and to perform the servicing and administrative duties approved in this Financing Order as the "Servicer." Without limiting the foregoing, in its capacity as initial Servicer of the Securitized Utility Tariff Property, Kansas Gas Service is authorized to calculate, bill and collect for the account of SPE, the Securitized Utility Tariff Charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The Servicer shall be entitled to collect servicing fees in accordance with the provisions of the Servicing Agreement, provided that the annual servicing fee payable to Kansas Gas Service while it is serving as Servicer (or to any other Servicer affiliated with Kansas Gas Service) shall not at any time exceed 0.05% of the original principal amount of the Securitized Utility Tariff Bonds. The Servicing Agreement shall include a provision that Kansas Gas Service shall indemnify the Commission (for the benefit of sales customers) in connection

with any increase in servicing fees that become payable as a result of a default resulting from Kansas Gas Service's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the Servicing Agreement. The indemnity will be enforced by the Commission but will not be enforceable by any retail consumer.

27. **Replacement of Kansas Gas Service as Servicer.** Upon the occurrence of an event of default under the Servicing Agreement relating to Kansas Gas Service's performance of its servicing functions with respect to the Securitized Utility Tariff Charges, the financing parties may replace Kansas Gas Service as the Servicer in accordance with the terms of the Servicing Agreement. No entity may replace Kansas Gas Service as the Servicer in any of its servicing or administrative functions with respect to the Securitized Utility Tariff Charges and the Securitized Utility Tariff Property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the Securitized Utility Tariff Bonds to be suspended, withdrawn or downgraded.

28. **Amendment of Agreements.** The parties to the Servicing Agreement, the Indenture, and the Sales Agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the Ongoing Financing Costs without the approval of the Commission. Any amendment that does not increase the Ongoing Financing Costs shall be effective without prior Commission approval. Any amendment to any such agreement that may have the effect of increasing Ongoing Financing Costs shall be provided by Kansas Gas Service to the Commission along with a statement as to the possible effect of the amendment on the Ongoing Financing Costs. The amendment shall become effective on the later of the date proposed by the parties to the amendment or

31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

29. **Collection Terms.** The Servicer shall remit collections of the Securitized Utility Tariff Charges to the SPE or the Indenture Trustee for the SPE's account in accordance with the terms of the Servicing Agreement.

E. Structure of the Securitization

30. **Structure.** Kansas Gas Service shall endeavor to structure the securitization as proposed in Kansas Gas Service's Application. This structure shall be consistent with Findings of Fact 1 through 13. Nevertheless, the Commission provides Kansas Gas Service with the flexibility to modify the proposed structure based upon rating agency and market considerations, and the final structure shall satisfy the customer benefit requirements as demonstrated by the final Issuance Advice Letter.

F. Use of Proceeds

31. **Use of Proceeds.** Upon the issuance of Securitized Utility Tariff Bonds, the SPE will use the net proceeds from the sale of the Securitized Utility Tariff Bonds (after payment of transaction costs) to pay to Kansas Gas Service the purchase price of the Securitized Utility Tariff Property. The net proceeds from the sale of the Securitized Utility Tariff Property (after payment of transaction costs) will be applied to recover Kansas Gas Service's Qualified Extraordinary Costs and Financing Costs as approved by this Financing Order and specified in the final Issuance Advice Letter.

G. Miscellaneous Provisions

32. **Method of Tracing Funds.** The Securitized Utility Tariff Charges collected from customers will be placed on a separate line on customers' bills, allowing Kansas Gas Service to assign the Securitized Utility Tariff Charges a specific code, by customer class, in its billing system. This code will allow Kansas Gas Service to trace proceeds from the Securitized Utility Tariff Charges.

33. **Reconciliation of Securitized Utility Tariff Costs.** Because not all Securitized Utility Tariff Costs or offsets to the costs to be securitized are known at this time or at the time the Securitized Utility Tariff Bonds are issued, a future rate-making process using the existing COGR/ACA mechanism will reconcile any differences between the actual Securitized Utility Tariff Costs financed by Securitized Utility Tariff Bonds and the final Securitized Utility Tariff Costs incurred by Kansas Gas Service or its assignee. The reconciliation process will also consider both the deferred tax liability associated with recovery of Qualified Extraordinary Costs, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carryforward created by the Qualified Extraordinary Costs. The reconciliation shall not affect the amount of Securitized Utility Tariff Bonds or the associated Securitized Utility Tariff Charges paid by customers.

34. **Penalties.** Kansas Gas Service filed a Motion for Limited Waiver on May 28, 2021, in Commission Docket No. 21-KGSG-332-GIG, to address violations of tariff provisions during the Operational Flow Order and Period of Curtailment issued by the Company during the Winter Event. On March 3, 2022, the Commission issued an order approving a

unanimous settlement agreement related to Kansas Gas Service's Motion for Limited Waiver. Penalty amounts collected by Kansas Gas Service will reduce or offset the Qualified Extraordinary Costs to be recovered from Kansas Gas Service's sales customers. To the extent Kansas Gas Service receives payments prior to issuing the Securitized Utility Tariff Bonds, Kansas Gas Service will reduce the Qualified Extraordinary Costs to be securitized by the dollar amount of penalties collected, up to $52,446,581. If amounts are collected after the Securitized Utility Tariff Bonds are issued, Kansas Gas Service will credit the dollar amount of penalties collected through the COGR/ACA mechanism.

35. **Irrevocability.** Upon issuance of Securitized Utility Tariff Bonds or transfer of the Securitized Utility Tariff Property to the SPE, whichever occurs first, this Financing Order and the Securitized Utility Tariff Charges authorized by the Financing Order become irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for any true-up adjustments made in accordance with the Adjustment Mechanism as approved in this Financing Order; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for the issuance of Securitized Utility Tariff Bonds if requested to do so by Kansas Gas Service.

36. **Pledge of the Commission.** The Commission affirms the pledge of state set forth in K.S.A. § 66-1,252 and shall not take or permit any of the following actions that would impair the value of the Securitized Utility Tariff Property authorized by this Financing Order, unless otherwise permitted by the statute:

- Alter the statute that authorizes the Commission to create an irrevocable contract right or chose in action by the issuance of a Financing Order, to create securitized utility tariff property and to make the Securitized Utility Tariff Charges imposed by a Financing Order irrevocable, binding or nonbypassable charges for all existing and future sales customers within the service area of the public utility;

- Take any action that would impair the value of Securitized Utility Tariff Property or the security for the Security Utility Tariff Bonds, or revises the Securitized Utility Tariff Costs for which recovery is authorized; impair the rights and remedies of the bondholders, assignees and other financing parties in any way; or,

- Except for changes made pursuant to the Adjustment Mechanism expressly allowed by law, reduce, alter, or impair the Securitized Utility Tariff Charges to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties, until any and all principal, interest, premium, Financing Costs and other fees, expenses or charges incurred and any contracts to be performed in connection with the related Securitized Utility Tariff Bonds have been paid and performed in full.

37. **Continuing Issuance Right.** Kansas Gas Service has the continuing irrevocable right to cause the issuance of Securitized Utility Tariff Bonds in accordance with this Financing Order for a period commencing with the date of this Financing Order and extending 24 months following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal; or (ii) the date on which any other regulatory approvals necessary to issue the Securitized Utility Tariff Bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall

automatically be extended to a date which is not less than 90 days after the date such disruption ends.

38. **Internal Revenue Service Private Letter or Other Rulings.** Kansas Gas Service is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, Kansas Gas Service shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the Securitized Utility Tariff Bonds, or any other matter related thereto. Kansas Gas Service shall also include a copy of every such ruling by the IRS it has received as an attachment to each Issuance Advice Letter required to be filed by this Financing Order. Kansas Gas Service may cause Securitized Utility Tariff Bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the Securitized Utility Tariff Bonds.

39. **Binding on Successors.** This Financing Order, together with the Securitized Utility Tariff Charges authorized in it, shall be binding on Kansas Gas Service and any successor to Kansas Gas Service. This Financing Order is also binding on any other entity responsible for billing and collecting Securitized Utility Tariff Charges on behalf of the SPE, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.

40. **Flexibility.** Subject to compliance with the requirements of this Financing Order, Kansas Gas Service and the SPE shall be afforded flexibility in establishing the terms and conditions of the Securitized Utility Tariff Bonds, including the final structure of the SPE, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, other Financing Costs, and the ability of Kansas Gas Service, at its option, to cause one or more series of Securitized Utility Tariff Bonds to be issued or to create more than one SPE for purposes of issuing such Securitized Utility Tariff Bonds. The final terms and conditions of the Securitized Utility Tariff Bonds will be provided to the Commission through the Issuance Advice Letter process, as described in Ordering Paragraph 5.

41. **Effectiveness of Order.** This Financing Order is effective upon issuance. Notwithstanding the foregoing, no Securitized Utility Tariff Property shall be created hereunder, and Kansas Gas Service shall not be authorized to impose, collect, and receive Securitized Utility Tariff Charges, until Kansas Gas Service's rights and interests under this Financing Order with respect to such Securitized Utility Tariff Property have been transferred to the SPE or another assignee or pledged in connection with the issuance of the Securitized Utility Tariff Bonds.

42. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the Securitized Utility Tariff Charges associated with the costs that are the subject of the Application, and all related transactions contemplated in the Application, are granted.

43. **Payment of Commission's Costs for Professional Services.** In accordance with K.S.A. § 66-1,241(h)(5), all expenses incurred by the Commission for financial advisors, counsel, or other professional services acquired for the purpose of evaluating Kansas Gas Service's proposed transaction shall be included as part of the Ongoing Financing Costs of the Securitized Utility Tariff Bonds and shall be included in the Securitized Utility Tariff Charge.

44. **Effect.** This Financing Order constitutes a legal Financing Order for Kansas Gas Service under the Act. The Commission finds this Financing Order complies with the provisions of the Act. A Financing Order gives rise to rights, interests, obligations, and duties as expressed in the Act. It is the Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. Kansas Gas Service, as the initial Servicer, and any Replacement Servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

45. **Further Commission Action.** The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by the Act to ensure that expected Securitized Utility Tariff Charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the Securitized Utility Tariff Bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the Securitized Utility Tariff Bonds.

46. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

APPENDIX A
FORM OF ISSUANCE ADVICE LETTER

[SUBMITTED FOR INFORMATION ONLY PURPOSES]

______DAY, _________ __, 202_

THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

[insert address]

SUBJECT: ISSUANCE ADVICE LETTER FOR SECURITIZED UTILITY TARIFF BONDS

Pursuant to the Financing Order adopted on the _____ day of _____, 202_ in *In The Matter of The Application of Kansas Gas Service, a Division of ONE Gas, Inc. For the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order* (the "Financing Order"), KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC. (the "Utility" or the "Applicant") submits, no later than the end of the first business day after the pricing date for that series of Securitized Utility Tariff Bonds, this Issuance Advice Letter to report certain terms and information related to the Securitized Utility Tariff Bonds Series _____, Tranches _________. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order or the Utility Financing and Securitization Act, K.S.A. §§ 66-1,240 - 66-1,253 (the "Act").

PURPOSE

This filing includes the following information:

(1) The total principal amount and calculation of Securitized Utility Tariff Bonds issued ("Authorized Amount");

(2) The final terms and structure of the Securitized Utility Tariff Bonds, including a description of any credit enhancement, the final estimated Securitized Utility Tariff bond issuance costs and the final estimates of ongoing financing costs for the first year following issuance;

(3) A calculation of projected customer savings relative to conventional methods of financing resulting from the issuance of the Securitized Utility Tariff Bonds; and

(4) The amount of initial Securitized Utility Tariff Bond Charges.

1. PRINCIPAL AMOUNT OF SECURITIZED UTILITY TARIFF BONDS ISSUED ("AUTHORIZED AMOUNT")

The total amount of Qualified Extraordinary Costs, other costs approved by the State Corporation Commission of the State of Kansas (the "Commission"), issuance costs being financed (the "Authorized Amount") is presented in Attachment 1.

2. DESCRIPTION OF FINAL TERMS OF BONDS

Set forth below is a summary of the final terms of the Securitized Utility Tariff Bond Issuance.

Securitized Utility Tariff Bond Title and Series: ______
Trustee: _____
Closing Date: _________ __, 202_
Bond Ratings: [S&P ___; Moody's ___; Fitch ___]
Amount Issued (Authorized Amount): $_____________
Securitized Utility Tariff Bond Issuance Costs: See Attachment 1, Schedule B.
Securitized Utility Tariff Bond Ongoing Financing Costs: See Attachment 2, Schedule B.

Tranche	Coupon Rate	Scheduled Final Maturity	Legal Final Maturity
	_____%	__/__/____	__/__/____
	_____%	__/__/____	__/__/____
	_____%	__/__/____	__/__/____

Effective Annual Weighted Average Interest Rate of the Securitized Utility Tariff Bonds:	_____%
Weighted Average Life of Series:	__ years
Call provisions (including premium, if any):	
Expected Sinking Fund Schedule:	Attachment 2, Schedule A
Payments to Bondholders:	Semiannually Beginning _________ __, ____

3. CALCULATION OF PROJECTED SAVINGS

The weighted average interest rate of the Securitized Utility Tariff Bonds (excluding costs of issuance and ongoing financing costs) is less than [____]%, accordingly, the proposed structuring, expected pricing, and financing costs of the Securitized Utility Tariff Bonds are reasonably expected to result in substantial revenue requirement savings as compared to conventional methods of financing. The net present value of the savings, which will avoid or mitigate rate impacts as compared to conventional methods of financing the qualified costs, is estimated to be $_________ (see Attachment 2, Schedule C), based on an effective annual weighted average interest rate of __% for the Ratepayer-Backed Bonds.

4. INITIAL SECURITIZED UTILITY TARIFF BOND CHARGE

Applicant will recover the Qualified Extraordinary Costs through a fixed monthly Securitized Utility Tariff Charge per customer. The table below provides the monthly fixed charge for each customer class. The fixed monthly charge is calculated assuming securitization of the Qualified Extraordinary Costs over the life of the Securitized Utility Tariff Bonds using the carrying charges through February 2023 (approximately $______ million) and the customer count from the Utility's 2020 Annual Report.

Securitized Utility Tariff Charge			**XX Year Recovery**	
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%		$_____
General Service - Small	36,902	8.79%		$_____
General Service - Large	11,527	10.48%		$_____
General Service - Transport Eligible	502	1.72%		$_____
Small Generator Service	690	0.03%		$_____
Irrigation Sales	197	0.01%		$_____
Kansas Gas Supply	-	0.00%		$_____

Based on the foregoing, the initial Securitized Utility Tariff Charges calculated for each Securitized Utility Tariff Customer Class are detailed in Attachment 3.

EFFECTIVE DATE

[In accordance with the Financing Order, the first billing of the Securitized Utility Tariff Charge would begin with the first billing cycle of the month following issuance of the Securitized Utility Tariff Bonds.]

AUTHORIZED OFFICER

The undersigned are officers of Applicant and authorized to deliver this Issuance Advice Letter on behalf of Applicant.

Respectfully submitted,

KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.

By: ___________________________________
Name: _________________________________
Title: __________________________________

ATTACHMENT 1
SCHEDULE A
CALCULATION OF AUTHORIZED AMOUNT

A.	Qualified Extraordinary Costs and other costs authorized in Docket No. 22-KGSG-______-TAR (including any adjustment to carrying costs)	
B.	Estimated issuance costs for the Securitized Utility Tariff Bonds (Attachment 1, Schedule B)	
TOTAL AUTHORIZED AMOUNT		

ATTACHMENT 1
SCHEDULE B
ESTIMATED ISSUANCE COSTS

	Issuance Costs
Legal	$1,300,000
Underwriting Fee	$1,526,813
Issuer/Underwriter Legal Fees	$2,900,000
Trustee Payment and Legal Fees	$50,000
Rating Agency Fees	$750,000
Servicer Set-Up Fees	$500,000
Accountants/Auditors Fees	$250,000
Printing/Filing/SEC Registration	$100,000
SPV Set-Up Fee	$100,000
Commission's Financial Advisor Fee	$500,000
Total Estimated Issuance Costs	$7,976,813
Issuance Costs as a % of Issuance Amount	2.09%

Note: Any difference between the estimated issuance costs financed for, and the actual issuance costs incurred by the Utility will be resolved, if estimates are more or less than actual, pursuant to the Financing Order issued in this proceeding.

ATTACHMENT 2
SCHEDULE A
BOND FUNDING REQUIREMENT INFORMATION

EXPECTED SINKING FUND SCHEDULE

SERIES ______, TRANCHE ___				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ______, TRANCHE ___				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ______, TRANCHE ___				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

ATTACHMENT 2
SCHEDULE B
ESTIMATED ONGOING FINANCING COSTS

	Itemized Annual Ongoing Financing Costs
Servicing Fees	$190,852
Administration Fees	$100,000
Accounting Fees	$76,341
Legal Fees	$38,170
Rating Agency Surveillance	$60,000
Trustee Fees	$15,000
Independent Director Fees	$5,000
Total Ongoing Financing Costs	$485,363
Ongoing Financing Costs as % of Issuance Amount	0.13%

Note: The amounts shown for each category of ongoing Financing Costs in this attachment are the expected costs for the first year of the Securitized Utility Tariff Bonds. Securitized Utility Tariff Charges will be adjusted at least semi-annually to reflect the actual ongoing Financing Costs through the true-up process described in the Financing Order, except that the servicing fee is fixed as long as the Utility (or any affiliate) is servicer.

ATTACHMENT 2
SCHEDULE C
BENEFITS VERSUS CONVENTIONAL FINANCING

	Conventional Financing	Securitized Utility Tariff Bond Financing	Savings/(Cost) of Securitized Utility Tariff Bond Financing
Present Value	$	$	$

The present value discount factor shall be the rate needed to discount future debt service payments on the Securitized Utility Tariff Bonds to the net proceeds of Securitized Utility Tariff Bonds, including accrued interest, DSRS and any contingency retained by the trustee.

ATTACHMENT 3
SCHEDULE A
INITIAL ALLOCATION OF COSTS TO CUSTOMER CLASSES

Customer Class		Estimate of February Usage (Mcf)	Allocation %
Residential		7,812,228	78.953%
General Service - Small		870,171	8.794%
General Service - Large		1,037,545	10.486%
General Service - Transport Eligible		170,496	1.723%
Small Generator Service		3,224	0.033%
Irrigation Sales		1,122	0.011%
Kansas Gas Supply		-	0.000%
	Total	9,894,787	100.000%

ATTACHMENT 3
SCHEDULE B
DESCRIPTION OF COST RECOVERY MECHANISM

The Qualified Extraordinary Costs will be recovered through a fixed monthly (per customer) Securitized Utility Tariff Charge on gas sales service customer bills. The Winter Event Securitized Cost Recovery Rider ("WESCR") shall govern the calculation of the Securitized Utility Tariff Charge. The Securitized Utility Tariff Charge will appear as a separate line item on gas sales service customers' bill as "Winter Event Securitized Cost." The Qualified Extraordinary Costs will be allocated to customer classes as shown in Attachment 3, Schedule A. The fixed, per-customer charge will then be calculated using the customer count reported in the most recent KGS Annual Report which is provided to the Commission annually. This customer count will be updated semi-annually for use in the mandatory Adjustment Mechanism. The Securitized Utility Tariff Charge will be adjusted semi-annually through the Adjustment Mechanism. If the customer count for a particular class declines by more than ten percent (10%) from that identified in the 2020 Annual Report, then the allocation factors will be recalculated using the most recent 12-month weather normalized volume for each customer class.

Winter Event Securitized Cost Recovery Rider

Applicability
This rider is applicable to all service provided under sales rate schedules RS, GSS, GSL, GSTE, SGS, KGSSD, GIS and SSR beginning with the first billing cycle following the issuance of securitized bonds pursuant to a Financing Order issued in Docket No. 22-KGSG-XXX-TAR. Service is subject to the Definitions and Conditions section below**.**

Net Monthly Charge

1. The Winter Event Securitized Cost Recovery Rider (WESCR) shall be applied as a fixed monthly charge calculated as described below for recovery of extraordinary costs incurred related to Winter Storm Uri (Winter Event).
2. All WESCR fixed monthly charges shall be calculated to the nearest $0.01 per customer. All charges set forth in the rate schedule under which the customer takes service shall also apply.
3. Initial Charge: The initial WESCR shall be determined as follows:
   a. The initial 12 months of principal, interest and servicing costs (adjusted for forecasted write-offs and late payments) for the Securitized Utility Tariff Bonds shall be allocated to the sales rate schedules as follows:

Rate Schedule	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.900%
General Service - Small	870,171	8.788%
General Service - Large	1,037,545	10.479%
General Service - Transport Eligible	170,496	1.722%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	0	0.000%
Total	9,894,787	100.00%

   b. The allocated principal, interest, servicing costs shall then be divided by the forecasted annual customer count for each rate schedule to calculate a monthly charge per customer.

Winter Event Securitized Cost Recovery Rider

4. WESCR Adjustment Mechanism: No less often than every six months, the Company shall adjust the WESCR charge for the over- or under-collections and to ensure the timely and complete payment of Securitized Utility Tariff Bonds and other financing costs. The WESCR shall be calculated for each rate class in the following manner:

   WESCR = (WESCR Adjustment Mechanism Revenue Requirement * Allocation % by Class) / Forecasted Customer Count by Class

   Where:

   WESCR Adjustment Mechanism Revenue Requirement =
   Cumulative (Over)/Under Collections for Prior Remittance Period
   + Estimated Current Remittance Period (Over)/Under Collections
   + Projected Remittance Period Revenue Requirement

   Where**:**

   Cumulative (Over)/Under Collections for Prior Remittance Period = Prior Remittance Period Revenue Requirement + Prior Remittance Period Actual Cash Receipt Transfers and Interest Income + Cash in Excess Funds

   Estimated Current Remittance Period (Over)/Under Collections = Current Remittance Period Revenue Requirement + Current Remittance Period Cash Receipts + Current Remittance Period Interest Income + Forecasted Current Remittance Period Cash Receipts + Forecasted Current Remittance Period Interest Income

   Projected Remittance Period Revenue Requirement = Forecasted Revenue Requirement for the remittance period

   Where:

   Revenue Requirement = Securitized Utility Tariff Bond Principal + Interest + Servicing Costs + Other Ongoing Costs

   Forecasted Current Remittance Period Cash Receipts = Σ(Current Period WESCR by Class * Forecasted Customer Count by Class) + Forecasted Write-offs and Late payments

   a. For the Prior Remittance Period, the actual Revenue Requirement and Remittances are used to determine the over- or under- recovery for that period.
   b. For the Current Remittance Period, the actual Revenue Requirement and Remittances for three months are compared to determine the over- or under-recovery for first three months of the period. For the remaining three months of the period, forecasted information for the Revenue

Requirement and Remittances are used to determine the remaining over- or under-recovery. The actual and the forecasted over- or under-recovery are added together.

c. For the Projected Remittance Period the forecasted Revenue Requirement is provided.
d. The WESCR Adjustment Mechanism Revenue Requirement is allocated to rate schedules according to the allocation factors listed in Section 3(a) of this rate schedule.

5. If the current customer count for any rate schedule identified in Section 3(a) declines by more than 10% from the customer count identified in the 2020 Annual Report, then the allocation in Section 3(a) will be recalculated using the most recent 12-month weather normalized volume.

6. Settlement Fee: A customer served under a sales rate schedule who switches to service under transportation rate schedule during the period in which the WESCR charge is being recovered will be required to pay a Settlement Fee. The Settlement Fee shall be based on the present value of the expected charges the customer would have paid under its sales rate schedule over the remaining period the WESCR charge is being recovered. This is required pursuant to the Commission's February 8, 2022, Order in Docket No. 21-KGSG-332-GIV. Any Settlement Fees collected will be credited through the Cost of Gas Rider on an annual basis.

Definitions and Conditions

1. The WESCR is designed to recover Qualified Extraordinary Costs as set out in K.S.A. 66-1,240 *et seq*.
2. The WESCR shall be a separate line item on the customer's bill.
3. The WESCR shall be subject to taxes and franchise fees as set out in the General Terms and Conditions for Gas Service Section 4.05.04.
4. Notwithstanding the requirements of The General Terms and Conditions for Gas Service Section 4.01.02, payments will first be applied to the WESCR.
5. At least 30 days prior to when the proposed updated charges begin billing, the Company shall file a report with the Commission, at least semi-annually, detailing the calculations of the adjustment mechanism for deriving the charges authorized by this rider to be applied during the subsequent Remittance Period. The Commission's review is limited to determining if any mathematical or clerical errors are present in the application of the adjustment mechanism.
6. The WESCR shall remain in effect until the Securitized Utility Tariff Bonds approved in the Financing Order issued in Docket No. 22-KGSG-XXX-TAR have been paid in full. After the bonds have been paid in full, any over-recovery will be credited to customers in a form of a credit to their natural gas bills.

APPENDIX C
FORM OF TRUE-UP LETTER

[KGS Letterhead]

Date: ____________, 202_

[[Address]]

Re: In The Matter of The Application of Kansas Gas Service, a Division of ONE Gas, Inc. For the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order, Docket No. 22-KGSG-____-TAR

Dear___________:

Pursuant to the Financing Order adopted on the _____ day of _____, 202_ in *In The Matter of The Application of Kansas Gas Service, a Division of ONE Gas, Inc. For the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order,* Docket No. 22-KGSG-____-TAR (Financing Application) (the "Financing Order"), Kansas Gas Service (the "Utility"), as Servicer of the Securitized Utility Tariff Bonds, or any successor Servicer on behalf of bond trustee as assignee of the Utility shall apply [semi-annually] for a mandatory periodic adjustment to the Securitized Utility Tariff Charges. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order or the Utility Financing and Securitization Act, K.S.A. §§ 66-1,240 - 66-1,253 (the "Act").

Each semi-annual true-up adjustment shall be filed with the Commission not less than [30] days prior to the first billing cycle of the month in which the revised Securitized Utility Tariff Charges, calculated under the Winter Event Securitized Cost Recovery Rider ("WESCR"), will be in effect. The Commission staff will have [30] days after the date of the true-up adjustment filing in which to confirm the mathematical and clerical accuracy of the servicer's adjustment. However, any mathematical or clerical correction not made prior to the effective date of the Securitized Utility Tariff Charges (WESCR Charges) will be made in future true-up adjustment filings and will not delay the effectiveness of the Securitized Utility Tariff Charges (WESCR Charges).

Using the formula approved by the Commission in the Financing Order, this filing modifies the variables used in the WESCR calculation and provides the resulting modified Securitized Utility Tariff Charges (or WESCR Charges). Exhibits 1, 2 and 3 show the resulting values of the Securitized Utility Tariff Charges for each Securitized Utility Tariff Charges Customer Class, as calculated in accordance with the Financing Order. The assumptions underlying the current Securitized Utility Tariff Charges were filed by the Utility in an [Issuance Advice]/True-up Letter dated ________.

Respectfully submitted,

[Utility]

By:______________________________________
Name:____________________________________
Title:_____________________________________

Exhibits

EXHIBIT 1
CALCULATION OF SECURITIZED UTILITY TARIFF CHARGES

Estimated Ongoing Financing Costs	
	Itemized Annual Ongoing Financing Costs
Servicing Fees	$190,852
Administration Fees	$100,000
Accounting Fees	$76,341
Legal Fees	$38,170
Rating Agency Surveillance	$60,000
Trustee Fees	$15,000
Independent Director Fees	$5,000
Total Ongoing Financing Costs	$485,363
Ongoing Financing Costs as % of Issuance Amount	0.13%

KGS will recover the Qualified Extraordinary Costs through a fixed monthly Securitized Utility Tariff Charge per customer. The table below provides the monthly fixed charge for each customer class. The fixed monthly charge is calculated assuming securitization of the Qualified Extraordinary Costs over the life of the Bonds using the carrying charges through February 2023 (approximately $390.5 million) and the customer count from the 2020 KGS Annual Report.

Securitized Utility Tariff Charge			**XX Year Recovery**	
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%		$_____
General Service - Small	36,902	8.79%		$_____
General Service - Large	11,527	10.48%		$_____
General Service - Transport Eligible	502	1.72%		$_____
Small Generator Service	690	0.03%		$_____
Irrigation Sales	197	0.01%		$_____
Kansas Gas Supply	-	0.00%		$_____

EXHIBIT 2
WESCR CALCULATIONS

Kansas Gas Service

Winter Event Securitized Charge Rider (WESCR) True-up Mechanism

for the Period ___________ through ______________

Line #	Description	Calculation of True-up	Projected Revenue Requirement to be Billed and Collected	Revenue Requirement for WESCR Charge
		(a)	(b)	(c) =(a)+(b)
1	**True-up for Prior Remittance Period Beginning _______ and Ending ______:**			
2	*Prior Remittance Period Revenue Requirement*			
3	Principal			
4	Interest			
5	Servicing Costs			
6	Other Ongoing Costs			
7	Total Prior Remittance Period Revenue Requirement (Line 3+4+5+6)	$ -		
8	*Prior Remittance Period Actual Cash Receipt Transfers and Interest Income*			
9	Cash Receipts Transferred to the SPE			
10	Interest Income on Subaccounts at the SPE			

11	Total Cash Receipt Transfers and Interest Income (Line 9+10)	$ -		
12	(Over)/Under Collections of Prior Remittance Period Requirements (Line 7+11)	$ -		
13	Cash in Excess Funds Subaccount at SPE			
14	Cumulative (Over)/Under Collections for Prior Remittance Period (Line 12+13)	$ -		$ -
15				
16				
17	**Current Remittance Period Beginning ______and Ending______:**			
18	*Current Remittance Period Revenue Requirement*			
19	Principal			
20	Interest			
21	Servicing Costs			
22	Other Ongoing Costs			
23	Total Current Remittance Period Revenue Requirement (Line 19+20+21+22)	$ -		
24				
25	*Current Remittance Period Cash Receipt Transfers and Interest income*			
26	Cash Receipts Transferred to the SPE			
27	Interest Income on Subaccounts at the SPE			
28	Total Cash Receipt Transfers and Interest Income (Line 26+27)	$ -	$ -	
29	Estimated Current Remittance Period (Over)/Under Collection (Line 23+28)	$ -	$ -	$ -
30				
31				
32	**Projected Remittance Period Beginning ______ and Ending______:**			
33	*Projected Remittance Period Revenue Requirement*			
34	Principal			
35	Interest			

36	Servicing Costs		
37	Other Ongoing Costs		
38	Total Projected Remittance Period Revenue Requirement (Line 34+35+36+37)	$ -	$ -
39			
40	Total WESCR Adjustment Mechanism Revenue Requirements (Line 14+29+38)		$ -
41			
42			
43			

44	**Customer Class**	**Forecasted 6-Month Customer Count**	**Allocation Factor**	**Projected Revenue Requirement Allocated to Customer Class**	**WESCR Charge**
45	Residential		78.90%	$ -	
46	General Service - Small		8.79%	$ -	
47	General Service - Large		10.48%	$ -	
48	General Service - Transport Eligible		1.72%	$ -	
49	Small Generator Service		0.03%	$ -	
50	Irrigation Sales		0.01%	$ -	
51	Kansas Gas Supply		0.00%	$ -	

EXHIBIT 3
WESCR FOR PAYMENT PERIOD

Customer Class	Charge
Residential	
General Service - Small	
General Service - Large	
General Service - Transport Eligible	
Small Generator Service	
Irrigation Sales	
Kansas Gas Supply	

APPENDIX D
SERVICING AGREEMENT

APPENDIX E
SECURITIZED UTILITY TARIFF PROPERTY PURCHASE AND SALE AGREEMENT

APPENDIX F
CUSTOMER COMMUNICATIONS PLAN

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 the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order.	)))))	Docket No. 22-KGSG-___ -TAR

DIRECT TESTIMONY

OF

JANET L. BUCHANAN

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

MARCH 31, 2022

EXHIBIT INDEX	
Exhibit	**Description of Exhibit**
JLB-1	Proposed WESCR Tariff
JLB-2	Proposed WESCR Adjustment Mechanism Form
JLB-3	Proposed SSRWER Tariff
JLB-4	Proposed Redlined Tariffs

DIRECT TESTIMONY

OF

JANET L. BUCHANAN

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

I. <u>POSITION AND QUALIFICATIONS</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Janet L. Buchanan, and my business address is 7421 W 129th St., 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] Positions held included: Utility Rates Analyst, Senior Research Economist, Managing Research 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, Inc., 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.

II. <u>PURPOSE OF FILING AND TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF THIS FILING?

A. Pursuant to the Commission's February 8, 2022, Order issued in Docket No. 21-KGSG-332-GIG ("21-332 Docket") and the recently enacted Utility Financing and Securitization Act (Senate Substitute for House Bill No. 2072 codified at K.S.A. 66-1,240 *et seq.*) ("Act"), KGS makes this filing for a Financing Order to issue Securitized Utility Tariff Bonds to recover the Qualified Extraordinary Costs the Company incurred to ensure service to its customers during the February 2021 Winter Storm Uri ("Winter Event"). In this filing, KGS provides a proposed Financing Order and

[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.

addresses the statutory requirements for requesting a Financing Order set out in the Act. Capitalized terms contained in my testimony have the meanings set forth in Section 1 (b) of the Act, K.S.A. 66-1,240. Witnesses for KGS address the following:

- a description of the Qualified Extraordinary Costs KGS requests to recover;
- a description of how customary rate-making treatment of KGS's Qualified Extraordinary Costs would result in extreme customer rate impacts;
- a description of the Securitized Utility Tariff Costs KGS proposes to recover with the proceeds of Securitized Utility Tariff Bonds;
- an indication of whether KGS intends to finance all or a portion of the Qualified Extraordinary Costs using Securitized Utility Tariff Bonds;
- an estimate of the financing costs related to the issuance of Securitized Utility Tariff Bonds;
- an estimate of the Securitized Utility Tariff Charges necessary to recover the Qualified Extraordinary Costs and the financing costs along with the period of recovery;
- a description of the proposed financing structure, including the proposed scheduled final payment dates and final maturity of the Securitized Utility Tariff Bonds;
- the proposed method of allocating the revenue requirement for the Securitized Utility Tariff Charges among KGS's customer classes;
- a description of the nonbypassable Securitized Utility Tariff Charges to be paid by customers;
- a proposed semi-annual adjustment mechanism;
- an estimate of the timing of the potential issuance of the Securitized Utility Tariff Bonds or series of bonds.
- a comparison of the net present value of the estimated costs to be incurred by customers from the issuance of Securitized Utility Tariff Bonds and that resulting from traditional methods of financing and recovery;
- a demonstration that the issuance of Securitized Utility Tariff Bonds is expected to provide quantifiable net rate benefits to customers or would avoid or mitigate rate impacts experienced by customers;
- a description of the future ratemaking process to reconcile any differences between the Securitized Utility Tariff Costs financed and the final Securitized Utility Tariff Costs incurred by KGS; and,

- a statement acknowledging that the reconciliation process may affect KGS rates but shall not affect the Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property or the associated Securitized Utility Tariff Charges paid by KGS's customers.

The Act requires a Financing Order include a plan for KGS to provide information to its customers concerning the benefits of securitization.[2] KGS has engaged in discussions on this issue with the Commission's Staff ("Staff") and the Citizens' Utility Ratepayer Board ("CURB"). KGS's Application includes a proposal for providing such information to customers for the Commission to consider. KGS also addresses the requirements of K.S.A. 66-1,243, which places requirements on how Securitized Utility Tariff Charges will appear on customer bills. Based on the Application and testimony provided, KGS requests the Commission adopt and issue the Company's proposed Financing Order, which would allow the Company to minimize the financial impact on its customers of the Qualified Extraordinary Costs associated with the Winter Event by issuing Securitized Utility Tariff Bonds pursuant to the terms of the Act.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the following filing requirements as set out in the Act:

- a description of the Qualified Extraordinary Costs to be recovered;
- a description of how customary rate-making treatment of KGS's Qualified Extraordinary Costs would result in extreme customer rate impacts;
- a description of the Securitized Utility Tariff Costs KGS proposes to recover with proceeds from the Securitized Utility Tariff Bonds;
- an indication of whether KGS intends to finance all or a portion of the Qualified Extraordinary Costs using Securitized Utility Tariff Bonds;
- an estimate of the Securitized Utility Tariff Charges needed to recover the Qualified Extraordinary Costs and the financing costs, and the period of recovery;

[2] K.S.A 66-1,241(e)(4).

- the proposed method of allocating the revenue requirement for the Securitized Utility Tariff Charges among KGS's customer classes;
- a description of the nonbypassable Securitized Utility Tariff Charge to be paid by customers and a proposed adjustment mechanism;
- a description of the future ratemaking process to reconcile any differences between the Securitized Utility Tariff Costs financed and the final Securitized Utility Tariff Costs incurred by KGS; and,
- a statement acknowledging that the reconciliation process may affect KGS rates but shall not affect the Securitized Utility Tariff Bonds, the securitized Utility Tariff Property or the associated Securitized Utility Tariff Charges paid by KGS's customers.

My testimony also sets out a general plan for providing information to KGS customers concerning the benefits of securitization, addresses the appearance of the Securitized Utility Tariff Charge on the customer's bill and discusses the method KGS will utilize to ensure that cash proceeds from the Securitized Utility Tariff Charge are traceable.

Q. WOULD YOU PLEASE INTRODUCE THE OTHER WITNESSES TESTIFYING ON BEHALF OF KGS?

A. Mark Smith, ONE Gas' Vice President and Treasurer, provides an estimate of the financing costs related to the issuance of Securitized Utility Tariff Bonds. He also provides an estimate of when the bonds or series of bonds can be issued, a comparison of the net present value of costs incurred by KGS's sales customers under Securitized Utility Tariff Bonds and under a traditional recovery mechanism and demonstrates the issuance of Securitized Utility Tariff Bonds is expected to provide quantifiable net rate benefits to customers. Additionally, Mr. Smith sponsors the proposed Financing Order and other agreements necessary for the securitization process. Charles N. Atkins II, an expert consultant retained by KGS, provides background information on securitization in general and how it has been utilized in other public utility proceedings and jurisdictions. Likewise, Mr. Atkins provides KGS-specific testimony and a description of the proposed financing structures, including the proposed scheduled final maturity for the Securitized Utility Tariff Bonds.

Q. **CAN YOU DISCUSS THE COMPANY'S PROPOSED FINANCING ORDER, AND HOW IT RELATES TO THE COMPANY'S APPLICATION?**

A. The Company's Application requests the Commission approve a proposed Financing Order, sponsored by Mr. Smith. The Act sets out statutory requirements for both applications for a Financing Order, as well as requirements for the Financing Order itself. To ensure the Company's Application fully met the Act's requirements, as well as the settlement terms reached in 21-332 Docket, the Company has drafted a proposed Financing Order for Commission review. Like other stakeholders, and consistent with Commission comments in the 21-332 Docket, the Company believes recovery of the Winter Event's Qualified Extraordinary Costs should be a collaborative process. This collaboration requires working together on items beyond the Act's application requirements.

Q. WOULD YOU PLEASE DESCRIBE THESE OTHER REQUIREMENTS?

A. The Act establishes certain requirements for an application and for a Financing Order. However, these requirements are not identical. For example, the Act requires a Financing Orders to include details for customer education efforts, but this educational element is not a requirement for financing order *applications*. Since customer education is a required element of a Financing Order, KGS believes it is appropriate to discuss this item early in the securitization process. Another example of differences in requirements for an application and for the Financing Order is associated with the treatment of Securitized Utility Tariff Property, and how the Company intends to service and collect charges related to it. This issue must be discussed in the Financing Order but is not a requirement for the application. Additionally, a number of agreements between KGS, ONE Gas, and other entities will be necessary to fully implement a securitization proposal. These agreements, which will need to be created as a matter of necessity, must be submitted to the Commission and will be provided as late filed exhibits to the Application. By submitting a proposed Financing Order with its Application, KGS seeks to have comprehensive, collaborative, and holistic discussions on the Company's securitization proposal. Incorporating the proposed Financial Order into this Application provides all parties: (1) assurance KGS has met the Act's application filing requirements, and (2) stakeholders and regulators are comfortable with the securitization proposal implemented by a Financing Order.

III. <u>DESCRIPTION OF QUALIFIED EXTRAORDINARY COSTS AND SECURITIZED UTILITY TARIFF COSTS</u>

Q. WHAT IS THE DEFINITION OF QUALIFIED EXTRAORDINARY COST UPON WHICH KGS HAS ESTABLISHED THE REGULATORY ASSET AND WHICH IS USED IN TESTIMONY IN THIS PROCEEDING?

A. As stated in my testimony supporting KGS's financial plan in the 21-332 Docket, there are two bases KGS has used to define Qualified Extraordinary Costs. First, KGS has utilized the Commission's definition of extraordinary costs contained in the Commission's Emergency Order issued on February 15, 2021 ("Emergency Order"), in Docket No. 21-GIMX-303-GIV ("21-303 Docket"). Second, KGS has utilized the Act's definition of Qualified Extraordinary Costs. The use of both these definitions has ensured the Company's Qualified Extraordinary Costs included in the regulatory asset to date will meet the Act's fundamental requirements, as well as the Commission's Emergency Order. This also ensures that the costs included in KGS's proposal to issue Securitized Utility Tariff Bonds to minimize the financial impact of the Winter Event on the Company's customers will meet requirements set out by the Act and by the Commission.

Q. YOU MENTIONED YOUR TESTIMONY SUPPORTING KGS'S FINANCIAL PLAN IN THE 21-332 DOCKET. ARE YOU INCORPORATING THAT TESTIMONY BY REFERENCE IN THIS DOCKET?

A. Yes, except to the extent it may cover issues that have been updated with more current information in this proceeding. For instance, this testimony updates information consistent with settlement of the Financial Plan in the 21-332 Docket and the charges that would result from various securitization periods and traditional ratemaking periods have been updated.

Q. HOW DID THE COMMISSION'S EMERGENCY ORDER DEFINE EXTRAORDINARY COSTS?

A. The Commission identified possible extraordinary costs to be deferred as including, but not limited to:

> . . .the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies, and any other reasonable costs necessary to ensure stability and reliability of natural gas and electric service. These deferred costs may also include carrying costs at the utility's weighted average cost of capital.[3]

Q. HOW DOES THE ACT DEFINE "QUALIFIED EXTRAORDINARY COSTS?"

[3] 21-303 Docket, "Emergency Order," paragraph 4.

A. The Act defines "qualified extraordinary costs" as including:

> . . .costs the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events.[4]

Q. DO THE COSTS INCURRED BY KGS DURING THE WINTER EVENT MEET BOTH THE CRITERIA IN THE EMERGENCY ORDER AND THE DEFINITION OF QUALIFIED EXTRAORDINARY COSTS WITHIN THE ACT?

A. Yes. As was demonstrated in KGS's testimony in the 21-332 Docket supporting the financial plan,[5] the costs the Company incurred during the Winter Event meet the criteria set out in the Emergency Order. That testimony also demonstrated the costs incurred meet the definition in the Act in that these extraordinary costs would cause "extreme customer rate impacts if recovered through customary rate-making." Furthermore, the Commission's Order issued in the 21-332 Docket on February 8, 2022, ("Financial Plan Order") determined these costs meet these fundamental definitions. Specifically, the Financial Plan Order approved the extraordinary costs set out in Table 1 to be included in KGS's request for a Financing Order. The Financial Plan Order also indicated that KGS would be able to include carrying charges at a rate of 2%[6] in the extraordinary costs.

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[4] K.S.A. 66-1,240 (b)18.
[5] See the testimony of Mr. Sean Postlethwait, Mr. Matt Robbins, Mr. Mark Smith, and Ms. Janet Buchanan which was filed in this docket on July 30, 2021, and which has been incorporated into the record in the 21-332 Docket.
[6] Attachment A to the Financial Plan Order indicates that the carrying charges were estimated to be approximately $15 million. See paragraph 12, on page 7 of Attachment A.

Table 1

EXTRAORDINARY COST DESCRIPTION	AMOUNT
Gas Costs	$358,086,241
O&M Costs	$222,459
Financing Fees - Term Loan	$4,525,260
Financing Fees - Notes Offering	$2,393,383
Legal/Consulting Costs	$931,474
Total Extraordinary Costs	$366,158,817

The Financial Plan Order also indicates the Qualified Extraordinary Costs will be trued-up and verified as part of the review of this filing.

Q. HAS KGS UPDATED THE QUALIFIED EXTRAORDINARY COSTS THROUGH JANUARY 31, 2022?

A. Yes. Table 2 provides an update of extraordinary costs through January 31, 2022, and updates carrying costs through February 2023.

Table 2

EXTRAORDINARY COST DESCRIPTION	AMOUNT
Gas Costs	$358,499,433
O&M Costs	$211,639
Financing Fees - Term Loan	$4,525,260
Financing Fees - Notes Offering	$2,164,671
Legal/Consulting Costs	$1,586,043
Carrying Costs through February 2023	$14,972,289
Total Extraordinary Costs	$381,959,334

Q. DO THE COSTS KGS INCURRED SINCE THOSE INCLUDED IN THE COMMISSION FINANCIAL PLAN ORDER ALSO MEET THE CRITERIA OF THE EMERGENCY ORDER AND THE ACT?

A. Yes. The additional costs incurred are the extraordinary portion of imbalance charges not previously reported, and legal and consulting fees related to the issues addressed in the 21-332 Docket and preparation of this Application. KGS would not have incurred these costs if the Winter Event had not occurred. Additionally, the work of these outside attorneys and consultants is supervised, directed and performed in consultation with the Company's Rates and Regulatory and Legal groups. To ensure that KGS incurs only reasonable and necessary expenses, all outside attorney and consultant invoices are reviewed by Company personnel to make certain they are consistent with the rates and scope of work agreed to by the Company and the outside vendor.

Q. DOES KGS ANTICIPATE INCURRING ANY ADDITIONAL COSTS?

A. Yes. KGS expects to incur additional costs in implementing its proposal to securitize the Qualified Extraordinary Costs. KGS anticipates legal fees, consulting fees, and carrying costs will continue to be incurred by the Company. The Act also allows recovery of the financing costs[7] associated with issuing the Securitized Utility Tariff Bonds. Mr. Smith's testimony addresses these additional financing costs. The Act also allows for the inclusion of the costs incurred by the Commission to perform its responsibilities in issuing a Financing Order and to observe the steps taken by the Company to bring the Securitized Utility Tariff Bonds to market. Staff estimates these costs to be $500,000.

Q. DOES KGS INTEND TO RECOVER ALL OF THE QUALIFIED EXTRAORDINARY COSTS THROUGH SECURITIZED UTILITY TARIFF BONDS?

A. No. While the Financial Plan Order contemplates that all Qualified Extraordinary Costs will be recovered through Securitized Utility Tariff Bonds, KGS no longer

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[7] K.S.A. 66-1,240 b(10) defines "Financing costs" as including, ". . . if authorized by the commission in a financing order, costs to issue, service, repay or refinance securitized utility tariff bonds, whether incurred or paid upon issuance of the securitized utility tariff bonds or over the life of the securitized utility tariff bond. . ."

believes the Act will permit recovery of costs associated with Sales Service for Resale customers. The Act states that Securitized Utility Tariff Charges can only be applied to "retail" customer bills.[8] KGS included the Sales for Resale customer class in its Financial Plan for recovery of extraordinary costs through securitization. However, KGS's Sales Service for Resale Tariff allows for utilities and municipal gas systems to purchase gas for resale outside the Company's service territory. Therefore, this is a wholesale rather than retail service. I will discuss the removal of costs associated with this customer class in Section IV and will discuss recovery of these costs in Section VII.

Q. WHAT ARE THE SECURITIZED UTILITY TARIFF COSTS THAT KGS WILL RECOVER?

A. The Securitized Utility Tariff Costs are identical to the Qualified Extraordinary Costs approved by the Commission in its Financial Plan Order, which will be verified and trued-up during the Commission's review and consideration of the proposed Financing Order, *less* the portion of these costs attributable to the Sales for Resale customer class. As indicated in the 21-332 Docket, the Company's Qualified Extraordinary Costs include the extraordinary portion of the natural gas commodity delivered to customers, operations and maintenance cost that would not have been incurred absent the Winter Event, legal and consulting fees related to the Winter Event and financing costs required to obtain the additional financing necessary to cover the extraordinary gas costs. It will also include the additional Winter Event related costs discussed above.

[8] K.S.A 66-1,240 (b)(20)

Q. HOW WILL KGS ADDRESS COSTS RELATED TO THE WINTER EVENT THAT WILL NOT BE ACCOUNTED FOR PRIOR TO THE ISSUANCE OF SECURITIZED UTILITY TARIFF BONDS?

A. The Act contemplates not all Qualified Extraordinary Costs to be securitized will be known at the time a utility requests a Financing Order or at the time the bonds are issued. The Act provides for a later reconciliation of actual costs incurred to those that are included in the securitized financing mechanism.[9] KGS will utilize this provision to address any costs not finalized prior to the time bonds are issued. For example, since the outcome of the Macquarie disputed invoice (in the amount of $14,940,073) was not resolved prior to filing this Application, any amount owed to Macquarie and the legal fees associated with the dispute will be included in the reconciliation mechanism. Additionally, invoices received after the bonds are issued (i.e., legal and securitization consulting invoices that will not be finalized until after the bonds are issued) will be addressed through the mechanism. The reconciliation process will be discussed in greater detail in Section V(e) of my testimony.

Q. DOES KGS ANTICIPATE THERE WILL BE ANY REDUCTIONS TO THE EXTRAORDINARY COSTS IDENTIFIED ABOVE?

A. Yes. KGS filed a Motion for Limited Waiver ("Motion") on May 28, 2021, in the 21-332 Docket, to address violations of tariff provisions during the Operational Flow Order and Period of Curtailment issued by the Company during the Winter Event. On March 3, 2022, the Commission issued an order approving a unanimous settlement

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[9] K.S.A. 66-1,241 (c)(10).

agreement related to KGS's Motion. Penalty amounts collected by KGS will reduce or offset the Qualified Extraordinary Costs to be recovered from KGS's sales customers.

Q. HOW WILL THE PENALTY COLLECTIONS BE ACCOUNTED FOR IN THE SECURITIZATION PROCESS?

A. To the extent KGS receives payments prior to issuing the Securitized Utility Tariff Bonds, KGS will reduce the Qualified Extraordinary Costs to be securitized by the dollar amount of penalties collected, up to $52,446,581. If amounts are collected after the Securitized Utility Tariff Bonds are issued, KGS will credit the dollar amount of penalties collected through the Cost of Gas Rider ("COGR") and associated Annual Cost Adjustment ("ACA") mechanism. This will be discussed with the reconciliation in Section V(e) of my testimony.

IV. <u>MITIGATING FINANCIAL EFFECT ON GAS SALES CUSTOMERS</u>

Q. WHY IS KGS REQUESTING A FINANCING ORDER TO ADDRESS RECOVERY OF QUALIFIED EXTRAORDINARY COSTS?

A. Commission approval of the proposed Financing Order will allow KGS to mitigate the costs gas sales service customers would otherwise pay (under traditional ratemaking recovery methods) for service the Company provided during the Winter Event. The new statutory provision accomplishes this purpose through securitization financing. Securitization financing will allow the Company access to a lower interest rate and allow it to extend the time-period over which customers can pay for the Qualified Extraordinary Costs while also supporting the financial strength and stability of the Company. Mr. Atkins provides background information about securitization in his testimony.

Q. IF THE COMMISSION APPROVES A FINANCING ORDER WILL KGS FOREGO RECOVERY OF ITS REGULATORY ASSET THROUGH TRADITIONAL RATEMAKING PROCESSES OR OTHER MECHANISMS?

A. If a Financing Order is approved by the Commission, then it is KGS's intent to recover the Winter Event regulatory asset balance, along with additional costs that are incurred until bonds are issued (less amounts attributable to the Sales for Resale class), through the Securitized Utility Tariff Charge. However, as mentioned previously, the Act does provide for a reconciliation of the final actual costs incurred with the securitized amount, with any difference in the amount to be addressed through traditional ratemaking. In short, KGS proposes to recover known and accounted for Qualified Extraordinary Costs through the securitization process, with any differences remaining following the bond issuance through the reconciliation process. The reconciliation process is discussed in Section V(e) of my testimony.

Q. IF THE COMMISSION DOES NOT APPROVE A FINANCING ORDER FOR KGS, HOW DOES THE COMPANY PROPOSE TO RECOVER THE QUALIFIED EXTRAORDINARY COSTS ASSOCIATED WITH THE WINTER EVENT?

A. If the Commission does not approve a Financing Order, KGS proposes to recover the costs over three or five years through a Winter Storm Rider on the customer's bill. This will be described in greater detail in Section V(b) of my testimony.

Q. DOES RECOVERY OF KGS'S EXTRAORDINARY COSTS THROUGH A SECURITIZED UTILITY TARIFF CHARGE PROVIDE QUANTIFIABLE BENEFITS FOR CUSTOMERS?

A. Yes. Please see the testimony of Mr. Smith for a comparison of the net present value of the costs to customers that are estimated to result from securitization and those costs that would otherwise result from traditional ratemaking. I provide a discussion of the inputs used in his calculations in Section V of my testimony. Mr. Smith's testimony clearly demonstrates KGS's customers will receive quantifiable net rate benefits through the securitization process. Likewise, Mr. Smith demonstrates that the securitization process will avoid or mitigate rate impacts to our customers (when compared to traditional rate-making cost recovery mechanisms).

Q. WHAT IS THE ESTIMATED AMOUNT OF EXTRAORDINARY COSTS TO BE SECURITIZED PRIOR TO FINANCING FEES?

A. The baseline Qualified Extraordinary Costs were set in the Commission's Financial Plan Order at approximately $366 million plus carrying charges. As discussed previously, the Financial Plan Order allows the Company to true-up and verify additional costs incurred related to the Winter Event. KGS has incurred costs and projected carrying costs of approximately $382 million as of January 31, 2022, as indicated in Table 2. KGS will present any additional costs incurred prior to securitization to the Commission for further review and true-up.

Q. HOW MUCH OF THE APPROXIMATELY $382 MILLION CAN BE SECURITIZED?

A. As discussed, KGS must remove extraordinary costs associated with the Sales for Resale gas sales customer class. As will be discussed more in Section V(b), KGS proposes to allocate Qualified Extraordinary Costs to customer classes based on estimated sales volume for February 2021. Thus, KGS will remove the amount of extraordinary costs associated with the Sales for Resale class's portion of February 2021 usage.

Q. WHY IS KGS USING AN ESTIMATE OF THE TOTAL FEBRUARY 2021 GAS SALES VOLUME RATHER THAN USING NATURAL GAS CONSUMPTION DURING THE WINTER EVENT TO ALLOCATE THE EXTRAORDINARY COSTS?

A. For the majority of its customers, KGS does not have real time metering. Meters are read monthly. Therefore, the volume of natural gas consumed during the Winter Event is not available. Additionally, because KGS reads meters and bills in cycles, some of the February 2021 sales volume is reflected in billing data for February and some is reflected in billing data for March. To account for this result, KGS is using an average of the sales volumes in each month as a reasonable estimate of the February 2021 gas sales volume used to calculate the allocation factors.

Q. WHAT ARE THE RESULTING ALLOCATION FACTORS FOR DETERMINING THE AMOUNT OF QUALIFIED EXTRAORDINARY COSTS THAT CAN BE SECURITIZED?

A. Table 3 below provides the allocation factor for each class. Accordingly, KGS must remove 0.067% of the Qualified Extraordinary Costs from the total to be securitized.

Table 3

Customer Class	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.900%
General Service - Small	870,171	8.788%
General Service - Large	1,037,545	10.479%
General Service - Transport Eligible	170,496	1.722%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	0	0.000%
Sales for Resale	6,141	0.062%
Sales for Resale - BH	499	0.005%
Total	9,901,426	100.00%

Q. WITH THIS ADJUSTMENT, WHAT IS THE TOTAL AMOUNT OF EXTRAORDINARY COSTS TO BE SECURITIZED BEFORE INCLUDING FINANCING FEES?

A. This adjustment will reduce the amount to be securitized by approximately $256,000. Thus, the total Qualified Extraordinary Costs, prior to financing fees, is approximately $381.7 million.

Q. WHAT IS THE TOTAL AMOUNT TO BE SECURITIZED, INCLUDING FINANCING FEES?

A. Mr. Smith indicates that financing fees associated with issuing Securitized Utility Tariff Bonds are likely to be approximately $8.5 million[10]. Thus, at this time, the estimated extraordinary costs to be securitized is approximately $390.2 million. The increase in costs since the Financial Plan Order was issued is related to the

[10] This amount includes the $500,000 estimate for the Commission's consultant.

extraordinary portion of imbalance charges not previously reported and the legal and consulting fees incurred by the Company related to the 21-332 Docket and the preparation of this Application and supporting testimony. Again, if the Commission issues a Financing Order, the amount to be securitized will be updated to reflect any additional costs incurred prior to bond issuance, including the additional financing fees.

V. COST RECOVERY DETAILS

a. SECURITIZED UTILITY TARIFF CHARGE

Q. HOW DOES THE ACT PROVIDE FOR THE RECOVERY OF EXTRAORDINARY COSTS?

A. The Act provides for recovery of Securitized Utility Tariff Bonds (i.e., Qualified Extraordinary Costs), through a Securitized Utility Tariff Charge. The Act defines such charge as:

> . . .the amounts authorized by the commission to provide a source of revenue solely to repay, finance or refinance securitized utility tariff bonds and financing costs and that are nonbypassable charges imposed on, and part of all retail customer bills, including bills to special contract customers as provided in section 2, and amendments thereto, collected by an electric or natural gas public utility or its successors or assignees, or a collection agent, in full, separate and apart from the electric or natural gas public utility's base rates. "Securitized utility tariff charges" are paid by all existing or future retail customers receiving electrical or natural gas service from the public utility or its successors or assignees under commission-approved rate schedules or under special contracts, as provided in section 2, and amendments thereto, even if a retail customer elects to purchase electricity or natural gas from an alternative electricity or natural gas supplier following a fundamental change in regulation of public utilities in this state.[11]

[11] K.S.A 66-1,240 (b)(20)

Q. THE ACT REQUIRES THAT THE SECURITIZED UTILITY TARIFF CHARGE BE NONBYPASSABLE. HOW DOES THE ACT DEFINE THIS TERM?

A. The Act defines "Nonbypassable" as follows:

> . . .the payment of a securitized utility tariff charge may not be avoided by any existing or future retail customer including special contract customers as provided in section 2, and amendments thereto, located within a public utility service area, as such service area existed on the date of the financing order, or, if the financing order so provides, as such service area may be expanded, even if the customer elects to purchase electricity or natural gas from a supplier other than the electric or natural gas utility, or its successors or assignees, or receives retail electric or natural gas service from another electric or natural gas service from another electric or natural gas utility operating in the same service area.[12]

Q. HOW COULD KGS CUSTOMERS ATTEMPT TO BYPASS THE SECURITIZED UTILITY TARIFF CHARGE?

A. As the Commission is aware, Attachment A to the Financial Plan Order includes the following language:

> Provided that such would be allowed under the Act, the Joint Movants agree that the Securitized Utility Tariff Charge will not be charged to transportation customers because those transportation customers are not considered retail customers as that term is used in the Act.[13]

If the Commission determines that transportation customers are not considered retail customers for purposes of the relevant statute, then the Securitized Utility Tariff Charge will not be imposed on transportation service customers. Therefore, commercial gas sales service customers who are eligible for transportation service[14] could attempt to avoid the charge by electing to receive transportation service.

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[12] K.S.A 66-1,240 (b)(15)

[13] Financial Plan Order, Attachment A, paragraph 17, page 8.

[14] Commercial customers with annual deliveries of at least 800 Mcf at a single location during the last 12 billing periods qualify for transportation service.

Q. HOW DOES KGS PROPOSE TO DEMONSTRATE THAT THE SECURITIZED UTILITY TARIFF CHARGE WILL BE NONBYPASSABLE?

A. As indicated in Attachment A to the Financial Plan Order, if the Commission finds it is permitted by the statute, a gas sales service customer who switches to transportation service during the period in which the Securitized Utility Tariff Charge is being recovered will be required to pay a settlement fee based on the present value of the expected charges the customer would have paid as a sales customer over the remaining period the Securitized Utility Tariff Charge is being recovered.[15] KGS proposes using a discount rate of two percent (2%) consistent with the carrying charge identified in the Financial Plan Order. KGS will credit this settlement fee to the COGR once a year. . Draft language is included the proposed Winter Event Securitized Cost Recovery Mechanism tariff attached as Exhibit JLB-1.

b. COST ALLOCATION, RATE DESIGN, RECOVERY PERIOD

Q. PLEASE DESCRIBE HOW KGS PROPOSES TO ALLOCATE THE EXTRAORDINARY COSTS TO CUSTOMER CLASSES.

A. KGS proposes to allocate Qualified Extraordinary Costs to the Company's gas sales service customer classes for recovery based on each customer class's percentage of the total estimated February 2021 gas sales volumes. The reason KGS is using estimated sales volumes to allocate its Qualified Extraordinary Costs is because the majority (approximately 94%) are gas costs. An allocation based on usage ensures the costs that a class of customers caused to be incurred will be paid by that class of customers. This allocation method would be utilized until all Qualified Extraordinary Costs are

[15] Financial Plan Order, Attachment A, paragraph 19, page 9.

recovered. While the Act allows the allocation of Securitized Utility Tariff Charges to be reallocated during base rate proceedings, KGS proposes to retain this customer allocation method throughout the life of this securitization proposal since the costs relate to a specific weather-related event with gas costs being the primary driver of the Qualified Extraordinary Costs.

Q. ARE KGS'S TRANSPORTATION SERVICE CUSTOMERS INCLUDED IN THE CUSTOMER CLASSES FROM WHOM THE QUALIFIED EXTRAORDINARY COSTS WILL BE RECOVERED?

A. No. A term of the settlement agreement approved by the Commission in the Financial Plan Order states:

> Provided that such would be allowed under the Act, the Joint Movants agree that the Securitized Utility Tariff Charge will not be charged to transportation customers because those transportation customers are not considered retail customers as that term is used in the Act.[16]

As shown above, the Act requires nonbypassable charges to be paid by retail customers. Transportation service customers purchase their gas from third parties (i.e., energy suppliers and marketers), and simply use KGS's distribution facilities to deliver the customers' *own* gas to their *own* businesses. Thus, unless the Commission finds that the Act requires transportation service customers to be considered retail customers, KGS will not include transportation service customers in the calculations for recovery of the Qualified Extraordinary Costs.

[16] Financial Plan Order, Attachment A, paragraph 17, page 8.

Q. DOES THIS TREATMENT PRESENT ANY CROSS-SUBSIDIZATION CONCERNS BETWEEN THE COMPANY'S RETAIL (I.E., SALES SERVICE) AND TRANSPORTATION SERVICE CUSTOMERS?

A. No. As discussed in proceedings in the 21-332 Docket, KGS purchases natural gas for gas sales customers and for system integrity. To the extent marketers and individually balanced customers did not comply with Operational Flow Orders and the Period of Curtailment issued by KGS during the Winter Event and utilized KGS's system integrity gas, KGS proposed that penalties be assessed. Pursuant to the Commission's order on penalties, marketers and individually balanced customers will pay approximately $65 million in penalties. The penalty amounts collected by KGS, up to approximately $52 million, will be used to reduce the Qualified Extraordinary Costs if collected prior to bonds being issued. Otherwise, amounts collected will be credited to gas sales customers through the reconciliation process.

Q. IS THIS TREATMENT CONSISTENT WITH THE ACT'S REQUIREMENTS?

A. While I am not a lawyer, I believe the treatment which excludes transportation service customers from the calculation of the Securitized Utility Tariff Charge is consistent with the Act. The Act requires the nonbypassable charges to be imposed on retail customers; however, "retail" is not defined in the Act. KGS suggests that transportation customers should not be considered retail customers for purposes of the Act because the Company does not sell the natural gas commodity, which comprises the majority of the Qualified Extraordinary Costs, to transportation customers. KGS's General Terms and Conditions Tariff Section 1.26 defines "Service" and creates separate definitions for “Sales Service” and “Transportation Service.” “Sales Service” is defined as:

> Gas delivery for which ***Company is responsible for procuring an adequate supply of gas to meet a customer's needs***. Company's responsibility under sales service is conditioned by Company's Rate Schedules and these GTC, specifically Section 11 Pipeline System Restrictions & Priorities. (emphasis added).

“Transportation Service” is defined as:

> Gas delivery for which a ***Customer is responsible for procuring a supply of gas adequate for the customer’s needs***. Company’s responsibility under transportation service is conditioned by Company’s Rate Schedules and these GTC, specifically Section 10, Requirements for Transportation Service and Section 11, Pipeline System Restrictions & Priorities. (emphasis added)

Transportation customers differ from sales customers because they are responsible for procuring their own supply of gas directly or through a marketer. For transportation customers, KGS is not involved in the direct sale of natural gas to the end use customer.

Q. IF TRANSPORTATION CUSTOMERS WERE CONSIDERED RETAIL CUSTOMERS, WOULD THIS CHANGE KGS’S ALLOCATION METHODOLOGY?

A. No. The Qualified Extraordinary Costs incurred by KGS were incurred by KGS to serve its “sales customers.” Penalties have been assessed to marketers and individually balanced transportation customers for any unauthorized consumption during the Winter Event and any penalty collections will be credited to gas sales customers by reducing the amount to be securitized or through the COGR. Because of this, no Qualified Extraordinary Costs should be allocated to transportation customers. As discussed above, this ensures both sales and transportation customers pay their fair share of natural gas costs. Retail sales customers will pay these costs through Securitized Utility

Tariff Charges over a period of time. Transportation customers, through their marketers or individually, will be charged (or credited) in accordance with the Commission's order on penalties issued in the 21-332 Docket.

Q. WHAT PERCENTAGE OF THE EXTRAORDINARY COSTS WILL BE ALLOCATED TO EACH RETAIL SALES CLASS UNDER THIS METHODOLOGY?

A. As discussed earlier, KGS proposes that the Qualified Extraordinary Costs be allocated to customer classes based on the percentage of estimated February 2021 usage of retail sales customers as a whole. Again, it is necessary to utilize an estimate of February 2021 usage because KGS reads meters on a monthly basis. Therefore, the volume of natural gas consumed during the Winter Event is not available. Additionally, because KGS reads meters and bills in cycles, some of the February 2021 sales volume is reflected in billing data for February and some is reflected in billing data for March. To account for this result, KGS is using an average of the sales volumes in each month as a reasonable estimate of the February 2021 gas sales volume used to calculate the allocation factors. The following table, Table 4, outlines the allocation percentage by customer class.

Table 4

Customer Class	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.953%
General Service - Small	870,171	8.794%
General Service - Large	1,037,545	10.486%
General Service - Transport Eligible	170,496	1.723%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	-	0.000%
	9,894,787	100.000%

Q. IF THE COMMISSION APPROVES A FINANCING ORDER, WHAT PERIOD OF TIME DOES KGS PROPOSE FOR RECOVERY OF THE EXTRAORDINARY COSTS?

A. The Act does not dictate a specific period to be utilized for recovery of Qualified Extraordinary Costs. However, the definition of Securitized Utility Tariff Bonds indicates that the bonds cannot have a maturity date later than 32 years from the issue date.[17] Because financing costs are lower with securitization, KGS proposes to recover Qualified Extraordinary Costs over a scheduled period of five, seven, ten or 12 years. This balances the need to extend the period of scheduled recovery to mitigate the financial impact on customers with the generational inequities that are more likely to occur when costs are spread out over a longer period and future customers, who were not customers at the time of the Winter Event, are required to pay the securitized utility tariff charge.

[17] K.S.A 66-1,240 (b)(19)(A).

KGS requests that during the securitization process, the Company be given flexibility to select the time period, from among these four (plus or minus two years) that results in the greatest benefit for the customers. Mr. Smith and Mr. Atkins provide additional discussion on why this flexibility will be helpful in reducing costs for customers. KGS believes that any of these time periods can lead to a reasonable bill impact for KGS's gas sales customers.

Q. DOES KGS PROPOSE RECOVERY OF THE EXTRAORDINARY COSTS THROUGH A FIXED CUSTOMER CHARGE OR VOLUMETRIC CHARGE?

A. KGS proposes recovery of the Qualified Extraordinary Costs through a fixed monthly Securitized Utility Tariff Charge per customer. As required by the Act, this charge will be a separate line item on the bill. Mr. Smith and Mr. Atkins discuss why a charge calculated based on customer count rather than consumption volumes is beneficial when pursuing securitization of the costs. A fixed, per-customer charge provides customers with bill certainty. KGS proposes that the fixed, per-customer charge be calculated using the customer count reported in the most recent KGS Annual Report, provided to the Commission annually, available at that time. This customer count will be updated semi-annually for use in the mandatory Adjustment Mechanism as discussed in more detail later in my testimony.

Q. WHAT IS THE FIXED MONTHLY CUSTOMER CHARGE ASSOCIATED WITH A FIVE-, SEVEN-, 10- AND 12-YEAR SCHEDULED RECOVERY PERIOD?

A. Tables 5a and 5b, beginning on page 31, provide the monthly fixed charge for each customer class. The fixed monthly charges in Table 5a are calculated assuming securitization of the Qualified Extraordinary Costs over the various time-periods using the currently estimated costs, carrying charges through February 2023 (approximately $390.5 million) and the customer count from the 2020 KGS Annual Report. The fixed monthly charges in Table 5b are calculated with the additional assumption that approximately $38.7 million in penalties are collected prior to securitization.[18] The monthly fixed, per-customer Securitized Utility Tariff Charge will be adjusted semi-annually, based on the payment schedule established, over- or under-recovery amounts and changes in customer count. Additionally, if the customer count for a particular class declines by more than ten percent (10%) from that identified in the 2020 Annual Report, then the allocation factors will be recalculated using the most recent 12-month weather normalized volume for each customer class. A proposed tariff, the Winter Event Securitized Cost Recovery ("WESCR") Mechanism is included as Exhibit JLB-1. In addition, all gas sales service rate schedules will be modified to add a reference to this new tariff.

Q. WHEN WILL THE SECRUTIZED UTILITY TARIFF CHARGE BECOME EFFECTIVE?

A. KGS proposed that the Securitized Utility Tariff Charge become effective on the day after the Securitized Utility Bonds are issued. The first billing of the Securitized Utility Tariff Charge, the WESCR, would begin with the first billing cycle of the month following bond issuance.

Q. WHEN WILL THE SECURITIZED UTILITY TARIFF CHARGE BE REMOVED FROM GAS SALES CUSTOMERS' BILLS?

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[18] The $38.7 million in penalty collections is calculated assuming that all penalty amounts are paid when due, and that Symmetry makes its additional monthly payments for 11 months prior to the charge being implemented.

A. The Securitized Utility Tariff Charge, the WESCR, will remain on gas sales customers' bills until all Securitized Utility Tariff Bonds, financing costs and servicing fees, administrative fees etc. related to the bonds are paid in full. This is expected to be at the final scheduled maturity date of the bonds.

Table 5a

Securitized Utility Tariff Charge			**5 Year Recovery**	
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.953%	$65,886,125	$9.32
General Service - Small	36,902	8.794%	$7,338,775	$16.57
General Service - Large	11,527	10.486%	$8,750,359	$63.26
General Service - Transport Eligible	502	1.723%	$1,437,918	$238.70
Small Generator Service	690	0.033%	$27,192	$3.28
Irrigation Sales	197	0.011%	$9,463	$4.00
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100%	$83,449,831	

Securitized Utility Tariff Charge			**7 Year Recovery**	
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.953%	$48,431,934	$6.85
General Service - Small	36,902	8.794%	$5,394,627	$12.18
General Service - Large	11,527	10.486%	$6,432,262	$46.50
General Service - Transport Eligible	502	1.723%	$1,056,992	$175.46
Small Generator Service	690	0.033%	$19,988	$2.41
Irrigation Sales	197	0.011%	$6,956	$2.94
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$61,342,760	

Securitized Utility Tariff Charge			**10 Year Recovery**	
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.953%	$35,617,878	$5.04
General Service - Small	36,902	8.794%	$3,967,324	$8.96
General Service - Large	11,527	10.486%	$4,730,423	$34.20
General Service - Transport Eligible	502	1.723%	$777,335	$129.04
Small Generator Service	690	0.033%	$14,700	$1.78
Irrigation Sales	197	0.011%	$5,115	$2.16
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$45,112,775	

Table 5a continued

Securitized Utility Tariff Charge			12 Year Recovery	
Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
Residential	589,076	78.953%	$30,688,001	$4.34
General Service - Small	36,902	8.794%	$3,418,206	$7.72
General Service - Large	11,527	10.486%	$4,075,684	$29.46
General Service - Transport Eligible	502	1.723%	$669,744	$111.18
Small Generator Service	690	0.033%	$12,665	$1.53
Irrigation Sales	197	0.011%	$4,407	$1.86
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$38,868,708	

Table 5b

Securitized Utility Tariff Charge			5 Year Recovery	
Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
Residential	589,076	78.953%	$59,312,052	$8.39
General Service - Small	36,902	8.794%	$6,606,517	$14.92
General Service - Large	11,527	10.486%	$7,877,254	$56.95
General Service - Transport Eligible	502	1.723%	$1,294,443	$214.88
Small Generator Service	690	0.033%	$24,479	$2.96
Irrigation Sales	197	0.011%	$8,518	$3.60
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$75,123,263	

Securitized Utility Tariff Charge			7 Year Recovery	
Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
Residential	589,076	78.953%	$43,599,429	$6.17
General Service - Small	36,902	8.794%	$4,856,355	$10.97
General Service - Large	11,527	10.486%	$5,790,455	$41.86
General Service - Transport Eligible	502	1.723%	$951,526	$157.96
Small Generator Service	690	0.033%	$17,994	$2.17
Irrigation Sales	197	0.011%	$6,262	$2.65
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$55,222,021	

Table 5b continued

Securitized Utility Tariff Charge			10 Year Recovery	
Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
Residential	589,076	78.953%	$32,063,951	$4.54
General Service - Small	36,902	8.794%	$3,571,467	$8.07
General Service - Large	11,527	10.486%	$4,258,424	$30.79
General Service - Transport Eligible	502	1.723%	$699,773	$116.16
Small Generator Service	690	0.033%	$13,233	$1.60
Irrigation Sales	197	0.011%	$4,605	$1.95
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$40,611,453	

Securitized Utility Tariff Charge			12 Year Recovery	
Class	2020 Annual Report Customer Count	Allocation %	Annual $ Allocated to Class	Monthly Fixed Charge
Residential	589,076	78.953%	$27,625,973	$3.91
General Service - Small	36,902	8.794%	$3,077,140	$6.95
General Service - Large	11,527	10.486%	$3,669,015	$26.52
General Service - Transport Eligible	502	1.723%	$602,917	$100.09
Small Generator Service	690	0.033%	$11,401	$1.38
Irrigation Sales	197	0.011%	$3,968	$1.68
Kansas Gas Supply	-	0.000%	$0	$0.00
Total	638,894	100.000%	$34,990,414	

Q. IF THE COMMISSION DOES NOT APPROVE A FINANCING ORDER, WHAT PERIOD OF TIME DOES KGS PROPOSE FOR RECOVERY OF THE QUALIFIED EXTRAORDINARY COSTS?

A. As mentioned above, the financing costs are much lower with the securitization option. If the Company is not able to use this option, KGS proposes to recover the Qualified Extraordinary Costs using a traditional-ratemaking method over either three or five years through a rider. These recovery periods would minimize the carrying costs that would be incurred on the outstanding balance each year. These recovery periods lead to greater, though justifiable, bill impacts for KGS customers given the carrying charges that would otherwise be imposed on the outstanding balance. These recovery periods also allow KGS to address the debt in a reasonable amount of time and improve the credit rating of ONE Gas which affects future debt costs.

Q. WHAT IS THE MONTHLY FIXED CHARGE ASSOCIATED WITH A THREE- AND FIVE-YEAR RECOVERY PERIOD UNDER TRADITIONAL RATEMAKING?

A. Table 6a and Table 6b, provide the monthly fixed charge, for each customer class, that is required in order to recover the Qualified Extraordinary Costs as of January 31, 2022. The calculation for Table 6a is made assuming traditional ratemaking, additional carrying costs through October 2022, a three- or five-year recovery period, and the customer count from the 2020 KGS Annual Report. As stated above, the lower financing costs will not be available to KGS; therefore, the carrying cost from September 2022 forward used in this calculation reflect KGS's weighted average cost of capital. This assumes also that the Commission will approve a new rider (Winter Event Cost Recovery Rider) with rates to be implemented in November 2022. Table 6b, makes the additional assumption that approximately $37 million in penalties have been collected.[19]

[19] The $37 million penalty collection assumes that all penalty amounts are paid when due and that Symmetry makes additional payments for five additional months prior to the charge being implemented.

Table 6a

Traditional Ratemaking Recovery - 3 Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%	$114,821,787	$16.24
General Service - Small	36,902	8.79%	$12,789,510	$28.88
General Service - Large	11,527	10.48%	$15,249,521	$110.24
General Service - Transport Eligible	502	1.72%	$2,505,904	$415.99
Small Generator Service	690	0.03%	$47,388	$5.72
Irrigation Sales	197	0.01%	$16,491	$6.98
Kansas Gas Supply	-	0.00%	$0	$0.00
Sales for Resale	16	0.06%	$90,256	$470.08
Sales for Resale - BH	1	0.01%	$7,335	$611.26
Total	638,910	100.0%	$145,528,192	

Traditional Ratemaking Recovery - 5 Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%	$74,691,967	$10.57
General Service - Small	36,902	8.79%	$8,319,620	$18.79
General Service - Large	11,527	10.48%	$9,919,866	$71.71
General Service - Transport Eligible	502	1.72%	$1,630,099	$270.60
Small Generator Service	690	0.03%	$30,826	$3.72
Irrigation Sales	197	0.01%	$10,727	$4.54
Kansas Gas Supply	-	0.00%	$0	$0.00
Sales for Resale	16	0.06%	$58,712	$305.79
Sales for Resale - BH	1	0.01%	$4,772	$397.63
Total	638,910	100.0%	$94,666,588	

Table 6b

Traditional Ratemaking Recovery - 3 Years				
Class	**2020 Annual Report Customer Count**	**Allocatio n %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%	$103,658,215	$14.66
General Service - Small	36,902	8.79%	$11,546,047	$26.07
General Service - Large	11,527	10.48%	$13,766,883	$99.53
General Service - Transport Eligible	502	1.72%	$2,262,267	$375.54
Small Generator Service	690	0.03%	$42,781	$5.17
Irrigation Sales	197	0.01%	$14,888	$6.30
Kansas Gas Supply	-	0.00%	$0	$0.00
Sales for Resale	16	0.06%	$81,481	$424.38
Sales for Resale - BH	1	0.01%	$6,622	$551.83
Total	638,911	100.0%	$131,379,183	

Table 6b continued

Traditional Ratemaking Recovery - 5 Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Residential	589,076	78.90%	$67,430,025	$9.54
General Service - Small	36,902	8.79%	$7,510,743	$16.96
General Service - Large	11,527	10.48%	$8,955,405	$64.74
General Service - Transport Eligible	502	1.72%	$1,471,612	$244.29
Small Generator Service	690	0.03%	$27,829	$3.36
Irrigation Sales	197	0.01%	$9,684	$4.10
Kansas Gas Supply	-	0.00%	$0	$0.00
Sales for Resale	16	0.06%	$53,003	$276.06
Sales for Resale - BH	1	0.01%	$4,308	$358.97
Total	638,911	100.0%	$85,462,610	

Q. HOW DO THE CHARGES RESULTING FROM EACH OF THE AMORTIZATION PERIODS ASSOCIATED WITH TRADITIONAL RATEMAKING AND SECURITIZED UTILITY TARIFF CHARGE RECOVERY AFFECT THE RESIDENTIAL CUSTOMER'S AVERAGE BILL (EXCLUDING TAXES)?

A. Based on annual normal usage of approximately 71 Mcf[20], the current Service Charge of $18.18, a Gas System Reliability Surcharge of $1.98, a Delivery Charge of $2.3485 and a cost of gas of $5.8908[21], the residential bill is estimated to increase as shown in Table 7a and Table 7b. The calculations in Table 7a use the fixed monthly charge from Table 5a and Table 6a. The calculations in Table 7b use the fixed monthly charge from Table 5b and Table 6b. It is clear that traditional ratemaking results in more extreme customer impacts.

[20] For the COGR option, the volume of residential usage is estimated at 13.26 Mcf (February 2021 estimated usage/2020 Annual Report customer count). For Table 7b, the extraordinary cost is reduced by penalties collected.

[21] This is the average cost of gas billed to KGS customers from March 2021 through February 2022.

Table 7a

Residential Bill Impacts				
Recovery Method	Charge	Average Annual Bill	% Increase in Annual Bill	Charge as % of Annual Bill
COGR	$38.74/Mcf	$1,399.33	69%	37%
Traditional Ratemaking - 3 Years	$16.24	$1,022.31	24%	19%
Traditional Ratemaking - 5 Years	$10.57	$954.19	15%	13%
Securitized Utility Tariff Charge - 5 Years	$9.32	$939.24	14%	12%
Securitized Utility Tariff Charge - 7 Years	$6.85	$909.61	10%	9%
Securitized Utility Tariff Charge - 10 Years	$5.04	$887.86	7%	7%
Securitized Utility Tariff Charge - 12 Years	$4.34	$879.49	6%	6%

Table 7b

Residential Bill Impacts				
Recovery Method	Charge	Average Annual Bill	% Increase in Annual Bill	Charge as % of Annual Bill
COGR	$34.98/Mcf	$1,291.54	56%	36%
Traditional Ratemaking - 3 Years	$14.66	$1,003.36	21%	18%
Traditional Ratemaking - 5 Years	$9.54	$941.86	14%	12%
Securitized Utility Tariff Charge - 5 Years	$8.39	$928.08	12%	11%
Securitized Utility Tariff Charge - 7 Years	$6.17	$901.41	9%	8%
Securitized Utility Tariff Charge - 10 Years	$4.54	$881.82	7%	6%
Securitized Utility Tariff Charge - 12 Years	$3.91	$874.29	6%	5%

c. ADJUSTMENT MECHANISM

Q. DOES THE ACT REQUIRE THAT THE SECURITIZED UTILITY TARIFF CHARGES BE ADJUSTED PERIODICALLY?

A. Yes. The Act requires an Adjustment Mechanism be implemented to ensure the timely and complete payment of the Securitized Utility Tariff Bonds, financing costs, and other amounts as needed.

Q. HOW IS "ADJUSTMENT MECHANISM" DEFINED BY THE ACT?

A. The Act defines "adjustment mechanism" as follows:

> . . . a formula-based rate adjustment, or true-up process approved by the commission for making, at least annually, expeditious periodic adjustments to securitized utility tariff charges, subject to timely commission review to confirm compliance, that customers are required to pay, as authorized in a financing order. The "adjustment mechanism" is utilized to make necessary corrections to adjust for over-collection or under-collection of such securitized utility tariff charges or otherwise to ensure the timely and complete payment of the securitized utility tariff bonds and all other financing costs and other required amounts and charges payable in connection with the securitized utility tariff bonds.[22]

Q. HOW FREQUENTLY MUST AN ADJUSTMENT MECHANISM BE FILED WITH THE COMMISSION?

A. The Act indicates that the Adjustment Mechanism must be filed at least annually.[23]

Q. WHAT TYPE OF COMMISSION REVIEW OF THE ADJUSTMENT MECHANISM IS ANTICIPATED BY THE ACT AND UNDER WHAT TIMELINE MUST THE REVIEW BE ACCOMPLISHED?

A. According to the Act, the Commission's review is ". . .limited to determining if any mathematical or clerical errors are present in the application of the adjustment mechanism relating to the appropriate amount of any over-collection or under-collection of securitized utility tariff charges and the amount of the adjustment."[24] The Commission has 30 days to either approve the adjusted charges or inform KGS of errors present in the calculation.[25]

Q. WHAT DOES KGS PROPOSE FOR AN ADJUSTMENT MECHANISM?

A. KGS proposes to make Adjustment Mechanism filings on a mandatory semi-annual basis to determine any over- or under-collection and ensure the timely and complete

[22] K.S.A. 66-1,240 (b)2.
[23] K.S.A. 66,1,241(g).
[24] Id.
[25] Id.

payment of the Securitized Utility Tariff Bonds. Additionally, semi-annual filings will help to minimize variations in the WESCR for customers. KGS also proposes to reserve the right to make more frequent optional adjustments at any time in the event any under-collection is projected. During the last year prior to the scheduled final maturity for the last Securitized Utility Tariff Bond tranche, adjustment calculations must be conducted on a quarterly basis, in order to ensure that the bonds and related ongoing financing costs be paid off in full by the scheduled final maturity. For purposes of discussion in testimony and in the tariff, KGS refers to the six-month intervals over which the WESCR will be adjusted as "Remittance Periods."[26]

Q. HOW WILL THE SECURITIZED UTILITY TARIFF CHARGE ADJUSTMENT MECHANISM BE PROVIDED TO THE COMMISSION?

A. On a semi-annual basis (unless greater frequency becomes necessary) KGS proposes to provide the Commission with administrative notice of the Adjustment Mechanism. Such notice will provide the calculations for the Securitized Utility Tariff Charge Adjustment Mechanism which will be referred to as the WESCR Adjustment Mechanism. The filing will be made so that the new adjusted WESCR charges will be effective approximately three months before each semi-annual debt service payment. The filing will be made 30 days prior to the proposed effective date. A proposed form for the Adjustment Mechanism calculation is attached to my testimony as Exhibit JLB-2.

Q. HOW WILL THE ADJUSTMENT MECHANISM BE CALCULATED?

[26] Note that the first Remittance Period will be a period of nine months beginning when the WESCR becomes effective. This is based on the testimony of Mr. Atkins indicating that the first scheduled payment of principal and interest on the bonds will be approximately nine months after the issuance of the bonds.

A. The WESCR Adjustment Mechanism will include data for three Remittance Periods. The three Remittance period are referred to as the Prior Remittance Period, the Current Remittance Period, and the Projected Remittance Period. This approach is intended to review revenue requirements including the upcoming debt service payment, as well as the subsequent following debt service payment, which may or may not be level. For the Prior Remittance Period, KGS will provide data for prior period revenue requirement and remittances. For the Current Remittance Period, data will be provided for the current six-month period revenue requirement, three months of actual remittances in the current period and three months of projected remittances. For the Projected Remittance Period, KGS will provide the projected revenue requirement for that six-month period. Most of the costs related to the remittance period revenue requirement will be fixed. However, some of the ongoing costs identified by Mr. Smith in Exhibit MWS-2 will have some variability. The projected data for remittances will involve utilizing the Company's forecasts for monthly customer counts, write offs for nonpayment and late payments.

To calculate the new adjusted WESCR, first the over- or under-recovery is calculated for the Prior Remittance Period by comparing the actual prior revenue requirement to the actual remittances. Then the over- or under-recovery is calculated for the Current Remittance Period. For this remittance period, the actual revenue requirement is compared to three months of actual and three months of projected remittances. Next, the projected revenue requirement is calculated. The total WESCR Adjustment Mechanism revenue requirement is calculated by adding the over- or under-recovery from the Prior Remittance Period and the Current Remittance Period to the Projected

Remittance Period revenue requirement. The allocations factors in Table 3 are then used to allocate the WESCR Adjustment Mechanism revenue requirement to each customer class. The amount allocated to each customer class is divided by the forecasted customer count for the current six-month period to arrive at the new WESCR charge. This charge will be applied in the last three months of the Current Remittance Period. This calculation is included in the WESCR tariff attached to my testimony as Exhibit JLB-1. Gas sales service tariffs are updated to reflect the applicability of the WESCR to service under the tariff. A redline version of all gas sales service tariffs are included in Exhibit JLB-4 which is attached to this testimony.

d. OTHER WESCR TARIFF PROVISIONS

Q. BEYOND THE DISCUSSION OF THE CALUCLATION OF THE INITIAL WESCR CHARGE AND THE ADJUSTMENT MECHANISM, ARE THERE ADDITIONAL PROVISIONS OF THE WESCR TARIFF THAT MERIT DISUCSSION.

A. Yes. The WESCR tariff indicates that the WESCR charge will be given priority of payment notwithstanding the provisions of Section 4.01.02 of KGS's General Terms and Conditions for Gas Service. That is, payments received by KGS will be first applied to the WESCR charge and then to the remaining bill. This approach will be a factor supportive of the highest bond ratings. To the extent this requires a waiver of the Commission's Billing Standards at Section A(4), KGS is requesting that a waiver be granted within this proceeding.

Q. IS THE WESCR CHARGE SUBJECT TO TAXES AND FRANCHISE FEES?

A. Yes. The WESCR charge is subject to taxes and franchise fees. The tariff indicates that the WESCR is subject to taxes and fees as set out in Section 4.05.04 of KGS's General Terms and Conditions for Gas Service.

e. RECONCILIATION PROCESS

Q. IN THE PRIOR SECTION OF THIS TESTIMONY, YOU MENTIONED THE ACT CONTAINS A RECONCILIATION PROVISION. PLEASE PROVIDE ADDITIONAL INFORMATION CONCERNING HOW THIS PROVISION WILL BE USED BY KGS.

A. The Act contemplates that not all costs or offsets to the costs to be securitized will be known at the time a utility requests a Financing Order or at the time the bonds are issued. Thus, the Act provides for a later reconciliation of actual costs to those costs initially estimated and included in the securitized financing mechanism.[27] The reconciliation process allows KGS to include Qualified Extraordinary Costs and financing costs known at that time the Securitized Utility Tariff Bonds are issued for recovery through the Securitized Utility Tariff Charge and to recover or refund the reconciled amount at a later date. The settlement agreement approved by the Commission in its Financial Plan Order also specifies that the reconciliation process will consider both the deferred tax liability associated with the extraordinary gas cost recoveries, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carryforward created by the extraordinary costs.[28]

[27] K.S.A 66-1,241 (c)(10).
[28] While the deferred tax liability and deferred tax asset currently net to zero rate base impact, the deferred tax asset may reverse over the time period of rate recovery and therefore there would be a net rate base reduction associated with these deferred taxes.

Q. WILL THE RECONCILIATION PROCESS AFFECT THE SECURITIZED UTILITY TARIFF CHARGE?

A. No. The Act specifies that the reconciliation cannot affect the Securitized Utility Tariff Charge. Rather, the reconciliation must be accomplished through a traditional ratemaking process.[29] KGS commits to ensuring the reconciliation process does not affect the Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property, or the associated Securitized Utility Tariff Charges paid by customers by proposing that the reconciliation process utilize the existing COGR/ACA mechanism to address additional costs, penalty collections, etc. that are not included in the Securitized Utility Tariff Bonds.

Q. HOW DOES KGS PROPOSE TO RECONCILE THE SECURITIZED AMOUNT WITH THE ACTUAL COSTS INCURRED AND RETURN (COLLECT) TO (FROM) GAS SALES SERVICE CUSTOMERS?

A. KGS proposes that on the first anniversary of the issuance of bonds, a comparison be made of the actual costs incurred and the securitized amount. KGS will also determine the amount of penalty collections not achieved prior to bond issuance and review the status of the Macquarie dispute. If the actual costs incurred by KGS are less than the securitized amount, KGS will amortize the reconciliation amount over the remaining life of the securitization amortization and will return that amount to gas sales service customers through the Company's COGR/ACA. If the actual costs incurred are greater than the securitized amount, KGS will amortize the reconciliation amount over the remaining life of the securitization amortization charge and that amount will be

[29] K.S. A. 66-1,241 (c)(10)B.

recovered from gas sales service customers through the Company's COGR/ACA. This process has been added to the COGR tariff and a redline version is include with this testimony as Exhibit JLB-4. Because these issues may not be completely resolved by the first anniversary of the issuance of bonds, this comparison will need to continue annually, as discussed below, until the disputed invoice and penalty matters are resolved.

Q. HOW WILL KGS HANDLE ANY PAYMENTS AS A RESULT OF FEDERAL OR STATE GOVERNMENTAL RELIEF IN THE FORM OF PROFIT DISGORGEMENT, CIVIL SUIT RELIEF, MARKET MANIPULATION FINDINGS, ETC.?

A. If KGS receives or recovers any payments as a result of any subsequent federal or state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc., resulting from the Winter Event, the Company will pass those payments on to its customers through its COGR/ACA, even if those payments may be received or recovered after the expiration of the Securitized Utility Tariff Charge.

f. APPEARANCE ON BILL

Q. HOW WILL THE SECURITIZED UTILITY TARIFF CHARGE APPEAR ON THE BILL?

A. K.S.A 66-1,243 requires that the securitized utility tariff charge be a separate line item on the bill with both the rate and associated total charge. If the Commission approves the use of a monthly fixed charge, the rate will be equal to the total charge. KGS proposes that the Securitized Utility Tariff Charge be identified as "Winter Event Securitized Cost."

Q. IF IT IS DETERMINED THAT THE EXTRAORDINARY COSTS SHOULD BE RECOVERED THROUGH TRADITIONAL RATE MAKING RATHER THAN THROUGH SECURITIZATION, HOW DOES KGS PROPOSE THAT THE CHARGE BE IDENTIFIED ON THE BILL?

A. KGS proposes that the charge be presented as a separate line item on the bill and identified as "Winter Event Cost Recovery"

g. TRACEABILITY OF PROCEEDS

Q. HOW WILL KGS ENSURE THAT PROCEEDS FROM THE WESCR ARE TRACEABLE?

A. Because the WESCR will be placed on a separate line on customer bills, KGS will be able to assign a specific code, by customer class, in its billing system. This code will allow the Company to trace proceeds from the WESCR.

VI. <u>CUSTOMER EDUCATION</u>

Q. THE ACT INDICATES THAT THE COMPANY MUST PROVIDE INFORMATION TO CUSTOMERS DETAILING THE BENEFITS OF SECURITIZATION. DOES KGS HAVE AN EDUCATION PLAN PROPOSAL?

A. KGS has been discussing this education requirement with Staff and CURB and will continue discussions as they review the Application and testimony filed in this proceeding. KGS presented the following general plan for providing educational content to customers:

Action	Deadline
Press Release (from KGS, ideally in partnership with KCC)	ASAP after final approval
Email sent to customers who have provided permission for email contact	Within 2 weeks after final approval
Link added to top of the KGS website to details on securitization	Within 2 weeks after final approval
Blog posted on KGS website and shared on social media	Within 2 weeks after final approval
Internal communications added to internal KGS website	Within 2 weeks after final approval
Information included in Monthly Customer Newsletter	Included in following month's newsletter after approval—will include in digital and print, depending on which happens first
Social Media posts and graphics	Ongoing after approval

KGS will work with Staff and CURB to draft the appropriate content for communication and education of customers as details of securitization (such as the amortization period, the type of charge, the amount of the charge and bill impact) are finalized. KGS can draw from securitization materials that have already been utilized by Oklahoma Natural Gas and Texas Gas Service Company.

VII. SALES FOR RESALE RECOVERY

Q. WHAT PERIOD OF TIME DOES KGS PROPOSE FOR RECOVERY OF THE EXTRAORDINARY COSTS ASSOCIATED WITH THE SALES FOR RESALE CUSTOMER CLASS?

A. As mentioned above, the financing costs are much lower with the securitization option. Since the Company is not able to use this option, KGS proposes to recover the extraordinary costs associated with the Sales for Resale customer class using a traditional-ratemaking method over either three or five years through a rider. Either of these recovery periods would minimize the carrying costs that would be incurred on the outstanding balance each year. It also allows KGS to address the debt in a reasonable amount of time and improve the credit rating of ONE Gas which affects future debt costs.

Q. WHAT IS THE MONTHLY FIXED CHARGE ASSOCIATED WITH A THREE- AND FIVE-YEAR RECOVERY PERIOD UNDER TRADITIONAL RATEMAKING FOR THE SALES FOR RESALE CUSTOMER CLASS?

A. Table 8a and Table 8b, on the following page, provide the monthly fixed charge for each customer class that is required in order to recover the extraordinary costs as of January 31, 2022. The calculation for Table 8a is made assuming traditional ratemaking, additional carrying costs through February 2023, a three- or five-year recovery period, and the customer count from the 2020 KGS Annual Report. As stated above, the lower financing costs will not be available to KGS; therefore, the carrying cost from February 2023 forward used in this calculation reflect KGS's weighted average cost of capital. This assumes also that the Commission will approve a new rider (Sales Service for Resale Winter Event Cost Recovery Rider ("SSRWECR") with rates to be implemented in March 2023. Table 8b, makes the additional assumption that approximately $37 million in penalties have been collected.[30] A tariff is attached as Exhibit JLB-3.

[30] The $37 million penalty collection assumes that all penalty amounts are paid when due and that Symmetry makes additional payments for five additional months prior to the charge being implemented.

Table 8a

SSRWECR Traditional Ratemaking Recovery - 3 Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Sales for Resale	17	100.00%	$97,173	$476.34
			$97,173	

SSRWECR Traditional Ratemaking Recovery - Five Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Sales for Resale	17	100.00%	$63,211	$309.86
			$63,211	

Table 8b

SSRWECR Traditional Ratemaking Recovery - 3 Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Sales for Resale	17	100.00%	$87,309	$427.99
			$87,309	

SSRWECR Traditional Ratemaking Recovery - Five Years				
Class	**2020 Annual Report Customer Count**	**Allocation %**	**Annual $ Allocated to Class**	**Monthly Fixed Charge**
Sales for Resale	17	100.00%	$56,795	$278.41
			$56,795	

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT JLB-1

Winter Event Securitized Cost Recovery Rider

Applicability
This rider is applicable to all service provided under sales rate schedules RS, GSS, GSL, GSTE, SGS, KGSSD, GIS and SSR beginning with the first billing cycle following the issuance of securitized bonds pursuant to a Financing Order issued in Docket No. 22-KGSG-XXX-TAR. Service is subject to the Definitions and Conditions section below**.**

Net Monthly Charge

1. The Winter Event Securitized Cost Recovery Rider (WESCR) shall be applied as a fixed monthly charge calculated as described below for recovery of extraordinary costs incurred related to Winter Storm Uri (Winter Event).
2. All WESCR fixed monthly charges shall be calculated to the nearest $0.01 per customer. All charges set forth in the rate schedule under which the customer takes service shall also apply.
3. Initial Charge: The initial WESCR shall be determined as follows:
    a. The initial 12 months of principal, interest and servicing costs (adjusted for forecasted write-offs and late payments) for the Securitized Utility Tariff Bonds shall be allocated to the sales rate schedules as follows:

Rate Schedule	**Estimate of February 2021 Usage (Mcf)**	**Allocation %**
Residential	7,812,228	78.900%
General Service - Small	870,171	8.788%
General Service - Large	1,037,545	10.479%
General Service - Transport Eligible	170,496	1.722%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	0	0.000%
Sales for Resale	6,141	0.062%
Sales for Resale - BH	499	0.005%
Total	9,901,426	100.00%

Winter Event Securitized Cost Recovery Rider

b. The allocated principal, interest, servicing costs shall then be divided by the forecasted annual customer count for each rate schedule to calculate a monthly charge per customer.

4. WESCR Adjustment Mechanism: No less often than every six months, the Company shall adjust the WESCR charge for the over- or under-collections and to ensure the timely and complete payment of Securitized Utility Tariff Bonds and other financing costs. The WESCR shall be calculated for each rate class in the following manner:

WESCR = (WESCR Adjustment Mechanism Revenue Requirement * Allocation % by Class) / Forecasted Customer Count by Class

Where:

WESCR Adjustment Mechanism Revenue Requirement =
Cumulative (Over)/Under Collections for Prior Remittance Period
+ Estimated Current Remittance Period (Over)/Under Collections
+ Projected Remittance Period Revenue Requirement

Where**:**

Cumulative (Over)/Under Collections for Prior Remittance Period = Prior Remittance Period Revenue Requirement + Prior Remittance Period Actual Cash Receipt Transfers and Interest Income + Cash in Excess Funds

Estimated Current Remittance Period (Over)/Under Collections = Current Remittance Period Revenue Requirement + Current Remittance Period Cash Receipts + Current Remittance Period Interest Income + Forecasted Current Remittance Period Cash Receipts + Forecasted Current Remittance Period Interest Income

Projected Remittance Period Revenue Requirement = Forecasted Revenue Requirement for the remittance period

Where:

Revenue Requirement = Securitized Utility Tariff Bond Principal + Interest + Servicing Costs + Other Ongoing Costs

Forecasted Current Remittance Period Cash Receipts = Σ(Current Period WESCR by Class * Forecasted Customer Count by Class) + Forecasted Write-offs and Late payments

a. For the Prior Remittance Period, the actual Revenue Requirement and Remittances are used to determine the over- or under- recovery for that period.

Winter Event Securitized Cost Recovery Rider

b. For the Current Remittance Period, the actual Revenue Requirement and Remittances for three months are compared to determine the over- or under-recovery for first three months of the period. For the remaining three months of the period, forecasted information for the Revenue Requirement and Remittances are used to determine the remaining over- or under-recovery. The actual and the forecasted over- or under-recovery are added together.
c. For the Projected Remittance Period the forecasted Revenue Requirement is provided.
d. The WESCR Adjustment Mechanism Revenue Requirement is allocated to rate schedules according to the allocation factors listed in Section 3(a) of this rate schedule.

5. Separation Fee: A customer served under a sales rate schedule who switches to service under transportation rate schedule during the period in which the WESCR charge is being recovered will be required to pay a Separation Fee. The Separation Fee shall be based on the present value of the expected charges the customer would have paid under its sales rate schedule over the remaining period the WESCR charge is being recovered. This is required pursuant to the Commission's February 8, 2022, Order in Docket No. 21-KGSG-332-GIV. Any Separation Fees collected will be included in the WESCR Adjustment Mechanism as a cash remittance.

Definitions and Conditions

1. The WESCR is designed to recover Qualified Extraordinary Costs as set out in K.S.A. 66-1,240 *et seq*.
2. The WESCR shall be a separate line item on the customer's bill.
3. The WESCR shall be subject to taxes and franchise fees as set out in the General Terms and Conditions for Gas Service Section 4.05.04.
4. Notwithstanding the requirements of The General Terms and Conditions for Gas Service Section 4.01.02, payments will first be applied to the WESCR.
5. At least 30 days prior to when the proposed updated charges begin billing, the Company shall file a report with the Commission, at least semi-annually, detailing the calculations of the adjustment mechanism for deriving the charges authorized by this rider to be applied during the subsequent Remittance Period. The Commission's review is limited to determining if any mathematical or clerical errors are present in the application of the adjustment mechanism.
6. The WESCR shall remain in effect until the Securitized Utility Tariff Bonds approved in the Financing Order issued in Docket No. 22-KGSG-XXX-TAR have been paid in full. After the bonds have been paid in full, any over-recovery will be credited to customers in a form of a credit to their natural gas bills.

Winter Event Securitized Cost Recovery Rider

Applicability
This rider is applicable to all service provided under sales rate schedules RS, GSS, GSL, GSTE, SGS, KGSSD, GIS and SSR beginning with the first billing cycle following the issuance of securitized bonds pursuant to a Financing Order issued in Docket No. 22-KGSG-XXX-TAR. Service is subject to the Definitions and Conditions section below**.**

Net Monthly Charge

1. The Winter Event Securitized Cost Recovery Rider (WESCR) shall be applied as a fixed monthly charge calculated as described below for recovery of extraordinary costs incurred related to Winter Storm Uri (Winter Event).
2. All WESCR fixed monthly charges shall be calculated to the nearest $0.01 per customer. All charges set forth in the rate schedule under which the customer takes service shall also apply.
3. Initial Charge: The initial WESCR shall be determined as follows:
   a. The initial 12 months of principal, interest and servicing costs (adjusted for forecasted write-offs and late payments) for the Securitized Utility Tariff Bonds shall be allocated to the sales rate schedules as follows:

Rate Schedule	Estimate of February 2021 Usage (Mcf)	Allocation %
Residential	7,812,228	78.900%
General Service - Small	870,171	8.788%
General Service - Large	1,037,545	10.479%
General Service - Transport Eligible	170,496	1.722%
Small Generator Service	3,224	0.033%
Irrigation Sales	1,122	0.011%
Kansas Gas Supply	0	0.000%
Total	9,894,787	100.00%

Winter Event Securitized Cost Recovery Rider

b. The allocated principal, interest, servicing costs shall then be divided by the forecasted annual customer count for each rate schedule to calculate a monthly charge per customer.

4. WESCR Adjustment Mechanism: No less often than every six months, the Company shall adjust the WESCR charge for the over- or under-collections and to ensure the timely and complete payment of Securitized Utility Tariff Bonds and other financing costs. The WESCR shall be calculated for each rate class in the following manner:

WESCR = (WESCR Adjustment Mechanism Revenue Requirement * Allocation % by Class) / Forecasted Customer Count by Class

Where:

WESCR Adjustment Mechanism Revenue Requirement =
Cumulative (Over)/Under Collections for Prior Remittance Period
+ Estimated Current Remittance Period (Over)/Under Collections
+ Projected Remittance Period Revenue Requirement

Where**:**

Cumulative (Over)/Under Collections for Prior Remittance Period = Prior Remittance Period Revenue Requirement + Prior Remittance Period Actual Cash Receipt Transfers and Interest Income + Cash in Excess Funds

Estimated Current Remittance Period (Over)/Under Collections = Current Remittance Period Revenue Requirement + Current Remittance Period Cash Receipts + Current Remittance Period Interest Income + Forecasted Current Remittance Period Cash Receipts + Forecasted Current Remittance Period Interest Income

Projected Remittance Period Revenue Requirement = Forecasted Revenue Requirement for the remittance period

Where:

Revenue Requirement = Securitized Utility Tariff Bond Principal + Interest + Servicing Costs + Other Ongoing Costs

Forecasted Current Remittance Period Cash Receipts = Σ(Current Period WESCR by Class * Forecasted Customer Count by Class) + Forecasted Write-offs and Late payments

a. For the Prior Remittance Period, the actual Revenue Requirement and Remittances are used to determine the over- or under- recovery for that period.

Winter Event Securitized Cost Recovery Rider

b. For the Current Remittance Period, the actual Revenue Requirement and Remittances for three months are compared to determine the over- or under-recovery for first three months of the period. For the remaining three months of the period, forecasted information for the Revenue Requirement and Remittances are used to determine the remaining over- or under-recovery. The actual and the forecasted over- or under-recovery are added together.
c. For the Projected Remittance Period the forecasted Revenue Requirement is provided.
d. The WESCR Adjustment Mechanism Revenue Requirement is allocated to rate schedules according to the allocation factors listed in Section 3(a) of this rate schedule.

5. If the current customer count for any rate schedule identified in Section 3(a) declines by more than 10% from the customer count identified in the 2020 Annual Report, then the allocation in Section 3(a) will be recalculated using the most recent 12-month weather normalized volume.

6. Settlement Fee: A customer served under a sales rate schedule who switches to service under transportation rate schedule during the period in which the WESCR charge is being recovered will be required to pay a Settlement Fee. The Settlement Fee shall be based on the present value of the expected charges the customer would have paid under its sales rate schedule over the remaining period the WESCR charge is being recovered. This is required pursuant to the Commission's February 8, 2022, Order in Docket No. 21-KGSG-332-GIV. Any Settlement Fees collected will be credited through the Cost of Gas Rider on an annual basis.

Definitions and Conditions

1. The WESCR is designed to recover Qualified Extraordinary Costs as set out in K.S.A. 66-1,240 *et seq*.
2. The WESCR shall be a separate line item on the customer's bill.
3. The WESCR shall be subject to taxes and franchise fees as set out in the General Terms and Conditions for Gas Service Section 4.05.04.
4. Notwithstanding the requirements of The General Terms and Conditions for Gas Service Section 4.01.02, payments will first be applied to the WESCR.
5. At least 30 days prior to when the proposed updated charges begin billing, the Company shall file a report with the Commission, at least semi-annually, detailing the calculations of the adjustment mechanism for deriving the charges authorized by this rider to be applied during the subsequent Remittance Period. The Commission's review is limited to determining if any mathematical or clerical errors are present in the application of the adjustment mechanism.
6. The WESCR shall remain in effect until the Securitized Utility Tariff Bonds approved in the Financing Order issued in Docket No. 22-KGSG-XXX-TAR have been paid in full. After the bonds have been paid in full, any over-recovery will be credited to customers in a form of a credit to their natural gas bills.

EXHIBIT JLB-2

Kansas Gas Service
Winter Event Securitized Charge Rider (WESCR) True-up Mechanism
for the Period ___________ through ______________

Line #	Description	Calculation of True-up (a)	Projected Revenue Requirment to be Billed and Collected (b)	Revenue Requirement for WESCR Charge (c) =(a)+(b)
1	**True-up for Prior Remittance Period Beginning _______ and Ending ______:**			
2	*Prior Remittance Period Revenue Requirement*			
3	Principal			
4	Interest			
5	Servicing Costs			
6	Other Ongoing Costs			
7	Total Prior Remittance Period Revenue Requirement (Line 3+4+5+6)	$ -		
8	*Prior Remittance Period Actual Cash Receipt Transfers and Interest Income*			
9	Cash Receipts Transferred to the SPE			
10	Interest Income on Subaccounts at the SPE			
11	Total Cash Receipt Transfers and Interest Income (Line 9+10)	$ -		
12	(Over)/Under Collections of Prior Remittance Period Requirements (Line 7+11)	$ -		
13	Cash in Excess Funds Subaccount at SPE			
14	Cumulative (Over)/Under Collections for Prior Remittance Period (Line 12+13)	$ -		$ -
15				
16				
17	**Current Remittance Period Beginning ______and Ending______:**			
18	*Current Remittance Period Revenue Requirement*			
19	Principal			
20	Interest			
21	Servicing Costs			
22	Other Ongoing Costs			
23	Total Current Remittance Period Revenue Requirement (Line 19+20+21+22)	$ -		
24				
25	*Current Remittance Period Cash Receipt Transfers and Interest income*			
26	Cash Receipts Transferred to the SPE			
27	Interest Income on Subaccounts at the SPE			
28	Total Cash Receipt Transfers and Interest Income (Line 26+27)	$ -	$ -	
29	Estimated Current Remittance Period (Over)/Under Collection (Line 23+28)	$ -	$ -	$ -
30				
31				
32	**Projected Remittance Period Beginning ______ and Ending______:**			
33	*Projected Remittance Period Revenue Requirement*			
34	Principal			
35	Interest			
36	Servicing Costs			
37	Other Ongoing Costs			
38	Total Projected Remittance Period Revenue Requirement (Line 34+35+36+37)		$ -	$ -
39				
40	Total WESCR Adjustment Mechanism Revenue Requirements (Line 14+29+38)			$ -
41				
42				
43				

44	Customer Class	Forecasted 6-Month Cutomer Count	Allocation Factor	Projected Revenue Requirement Allocated to Customer Class	WESCR Charge
45	Residential		78.90%	$ -	#DIV/0!
46	General Service - Small		8.79%	$ -	#DIV/0!
47	General Service - Large		10.48%	$ -	#DIV/0!
48	General Service - Transport Eligible		1.72%	$ -	#DIV/0!
49	Small Generator Service		0.03%	$ -	#DIV/0!
50	Irrigation Sales		0.01%	$ -	#DIV/0!
51	Kansas Gas Supply		0.00%	$ -	#DIV/0!
52	Sales for Resale		0.06%	$ -	#DIV/0!
53	Sales for Resale - BH		0.01%	$ -	#DIV/0!
				$ -	

Kansas Gas Service
Winter Event Securitized Charge Rider (WESCR) True-up Mechanism
for the Period ___________ through ______________

Line #	Description	Calculation of True-up (a)	Projected Revenue Requirement to be Billed and Collected (b)	Revenue Requirement for WESCR Charge (c) =(a)+(b)
1	**True-up for Prior Remittance Period Beginning _______ and Ending ______:**			
2	*Prior Remittance Period Revenue Requirement*			
3	Principal			
4	Interest			
5	Servicing Costs			
6	Other Ongoing Costs			
7	Total Prior Remittance Period Revenue Requirement (Line 3+4+5+6)	$ -		
8	*Prior Remittance Period Actual Cash Receipt Transfers and Interest Income*			
9	Cash Receipts Transferred to the SPE			
10	Interest Income on Subaccounts at the SPE			
11	Total Cash Receipt Transfers and Interest Income (Line 9+10)	$ -		
12	(Over)/Under Collections of Prior Remittance Period Requirements (Line 7+11)	$ -		
13	Cash in Excess Funds Subaccount at SPE			
14	Cumulative (Over)/Under Collections for Prior Remittance Period (Line 12+13)	$ -		$ -
15				
16				
17	**Current Remittance Period Beginning ______and Ending______:**			
18	*Current Remittance Period Revenue Requirement*			
19	Principal			
20	Interest			
21	Servicing Costs			
22	Other Ongoing Costs			
23	Total Current Remittance Period Revenue Requirement (Line 19+20+21+22)	$ -		
24				
25	*Current Remittance Period Cash Receipt Transfers and Interest income*			
26	Cash Receipts Transferred to the SPE			
27	Interest Income on Subaccounts at the SPE			
28	Total Cash Receipt Transfers and Interest Income (Line 26+27)	$ -	$ -	
29	Estimated Current Remittance Period (Over)/Under Collection (Line 23+28)	$ -	$ -	$ -
30				
31				
32	**Projected Remittance Period Beginning ______ and Ending______:**			
33	*Projected Remittance Period Revenue Requirement*			
34	Principal			
35	Interest			
36	Servicing Costs			
37	Other Ongoing Costs			
38	Total Projected Remittance Period Revenue Requirement (Line 34+35+36+37)		$ -	$ -
39				
40	Total WESCR Adjustment Mechanism Revenue Requirements (Line 14+29+38)			$ -
41				
42				
43				

Line #	Customer Class	Forecasted 6-Month Customer Count	Allocation Factor	Projected Revenue Requirement Allocated to Customer Class	WESCR Charge
44					
45	Residential		78.90%	$ -	#DIV/0!
46	General Service - Small		8.79%	$ -	#DIV/0!
47	General Service - Large		10.48%	$ -	#DIV/0!
48	General Service - Transport Eligible		1.72%	$ -	#DIV/0!
49	Small Generator Service		0.03%	$ -	#DIV/0!
50	Irrigation Sales		0.01%	$ -	#DIV/0!
51	Kansas Gas Supply		0.00%	$ -	#DIV/0!
				$ -	

EXHIBIT JLB-3

Residential Sales Service

Availability

Available in and around the communities specified in the Index to residential customers at single locations. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$18.70	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$2.3485	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Sales service under this rate schedule is available to residential customers for use by the customer as provided for in Company's General Terms and Conditions for Gas Service.
2. Sales service is provided for the charge specified in the Net Monthly Bill when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
3. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~February 5, 2019~~	~~18-KGSG-560-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~February 5, 2019~~ ~~/S/ Lynn Retz~~
Effective:	~~February 6, 2019~~	
By:	/S/ Janet L. Buchanan, Director – Regulatory Affairs	

General Sales Service Small

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$28.65	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$2.3472	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Annual deliveries less than 200 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer's behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

General Sales Service Large

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$45.00	Service Charge, plus
	Applicable adjustments and charges provided in Company’s Gas System Reliability Surcharge, plus
$1.8145	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer’s Service Agreement.

Definitions and Conditions

1. Annual deliveries between 200 and 1,500 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer’s behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company’s General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

General Sales Service Transport Eligible

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$60.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.8177	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Annual deliveries greater than 1,500 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer's behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~February 5, 2019~~	~~18-KGSG-560-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~February 5, 2019~~ ~~/S/ Lynn Retz~~
Effective:	~~February 6, 2019~~	
By:	/S/ Janet L. Buchanan, Director – Regulatory Affairs	

Small Generator Sales Service

Availability

Available to nonresidential customers at single locations in and around the communities specified in the Index for separately metered electric generators. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$52.20	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$0.6427	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
3. All provisions of this rate schedule are subject to changes made by order of the Commission.

Kansas Gas Supply Sales Service D

Availability

Available to customers which were served under this tariff on September 15, 2003, and which continue to be served hereunder. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$360.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$0.9574	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

Definitions and Conditions

1. Service shall be provided only from Company's existing facilities. When additional facilities are needed to serve customer, an additional charge may be needed.
2. Service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
3. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~February 5, 2019~~	~~18-KGSG-560-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~February 5, 2019~~ ~~/S/ Lynn Retz~~
Effective:	~~February 6, 2019~~	
By:	/S/ Janet L. Buchanan, Director – Regulatory Affairs	

Gas Irrigation Sales Service

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations for the purpose of crop irrigation. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$36.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.6890	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
3. Service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Sales Service for Resale

Availability
Available to utilities and municipal gas systems at single locations for gas for resale outside Company's service territory. Service is subject to Definitions and Conditions below.

Net Monthly Bill

$85.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.2497	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
3. Service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~November 29, 2016~~	~~16-KGSG-491-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~December 28, 2016~~ ~~/S/ Amy L. Green~~
Effective:	~~January 1, 2017~~	
By:	/S/ ~~David N. Dittemore, Director – Regulatory Affairs~~	

Cost of Gas Rider

(a) The Hedge Recovery OC component shall be a volumetric charge calculated by dividing the projected net balance by the sales volumes projected to occur in the months of April through October.

(b) Company shall show the amounts collected from customers through the Hedge Recovery OC component as a separate line item on the customer's bill.

(2) Costs and revenues generated from the settlement of financial derivatives related to Gas Hedge Program sales shall be flowed back as the Hedge Settlement OC component during the months of November through March.

(a) The Hedge Settlement OC component shall be a volumetric charge or credit that is calculated each month from November through March by dividing the monthly estimated hedge payoff amount by the sales volumes projected to occur in that respective month. The estimated payoff amount shall be adjusted to the actual payoff amount in the following month's calculation.

(b) Company shall not be required to show the Hedge Settlement OC component as a separate line item on the customer's bill.

(3) The Hedge Program Year shall be the 12 months beginning with April and ending with March. Any variance remaining at the end of the Hedge Program Year shall be included in the subsequent Actual Cost Adjustment calculation.

d. The reconciliation of the amount of Securitized Utility Tariff Bonds to actual Winter Event costs incurred along with any reductions to those costs as set out in Docket No. 22-KGSG-XXX-TAR. On the first anniversary of the issuance of Securitized Utility Tariff Bonds a comparison is made of actual costs incurred to the securitized amount and any penalty collections received after bond issuance. The difference will be amortized over the remaining life of the securitized bonds. This comparison will take place annually until the disputed invoice and penalty amounts are fully addressed.

Definitions and Conditions

1. All provisions set forth in the rate schedule under which a customer takes service apply to the extent they are not superseded by provisions of this rider.

2. The Computation Year, consisting of the 12 month period ending June 30, shall be the base period for calculation unless otherwise specified.

3. Appropriate Net Gas Costs are those which are properly included in FERC Account Nos. 800, 801, 802, 803, 804, 805, 806, 808, 809, and 811.

Cost of Gas Rider

4. A monthly report shall be filed with the Commission, describing the costs associated with gas and transportation services purchased by Company to meet sales service requirements and included in

Sales Service for Resale Winter Event Cost Recovery Rider

Availability
This rider is applicable to all service provided under sales rate schedule SSR beginning with the first billing cycle following ___DATE__ pursuant to the Order issued in Docket Number 22-KGSG-XXX-TAR. Service is subject to Definitions and Conditions below**.**

Net Monthly Bill
$XXX.XX for each meter per month for NUMBER OF MONTHS following DATE

Definitions and Conditions

1. The SSRWECR is designed to recover extraordinary costs associated with Winter Storm Uri allocated to Sales for Resale pursuant to the Commission's Order issued in Docket Number 22-KGSG-XXX-TAR.
2. The SSRWECR shall be a separate line item on the customer's bill.
3. The SSRWECR shall be subject to taxes and franchise fees as set out in the General Terms and Conditions for Gas Service Section 4.05.04.
4. The SSRWECR shall remain in effect for NUMBER OF MONTHS. Any over- or under-recovery of extraordinary costs will be credited or charged to customers on their bill.

Issued: ____________________ Effective: ____________________ By: /S/ David N. Dittemore, Director – Regulatory Affairs	

EXHIBIT JLB-4

Residential Sales Service

Availability

Available in and around the communities specified in the Index to residential customers at single locations. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$18.70	Service Charge, plus
	Applicable adjustments and charges provided in Company’s Gas System Reliability Surcharge, plus
$2.3485	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer’s Service Agreement.

Definitions and Conditions

1. Sales service under this rate schedule is available to residential customers for use by the customer as provided for in Company's General Terms and Conditions for Gas Service.
2. Sales service is provided for the charge specified in the Net Monthly Bill when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
3. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~February 5, 2019~~	~~18-KGSG-560-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~February 5, 2019~~ ~~/S/ Lynn Retz~~
Effective:	~~February 6, 2019~~	
By:	/S/ Janet L. Buchanan, Director – Regulatory Affairs	

General Sales Service Small

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$28.65	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$2.3472	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Annual deliveries less than 200 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer's behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~November 29, 2016~~	~~16-KGSG-491-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~December 28, 2016~~ ~~/S/ Amy L. Green~~
Effective:	~~January 1, 2017~~	
By:	/S/ ~~David N. Dittemore, Director – Regulatory Affairs~~	

General Sales Service Large

Availability
Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$45.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.8145	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions
1. Annual deliveries between 200 and 1,500 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer's behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

General Sales Service Transport Eligible

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations. Not available for service to separately metered generators with a capacity less than 20 kilowatts. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$60.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.8177	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Annual deliveries greater than 1,500 Mcf at an individual meter during the last 12 billing periods shall qualify a customer for service under this rate schedule.
2. If a customer does not select a general service rate schedule for which it may qualify, Company may select the applicable general service rate schedule on the customer's behalf. A customer may change the general service rate schedule which the customer is being billed during the first 12 months of service under the selected rate schedule. Thereafter, the customer is prohibited from making more than one change in a 12-month period.
3. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
4. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
5. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
6. All provisions of this rate schedule are subject to changes made by order of the Commission.

Small Generator Sales Service

Availability
Available to nonresidential customers at single locations in and around the communities specified in the Index for separately metered electric generators. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$52.20	Service Charge, plus
	Applicable adjustments and charges provided in Company’s Gas System Reliability Surcharge, plus
$0.6427	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Weather Normalization Adjustment Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer’s Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Sales service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
3. All provisions of this rate schedule are subject to changes made by order of the Commission.

Kansas Gas Supply Sales Service D

Availability

Available to customers which were served under this tariff on September 15, 2003, and which continue to be served hereunder. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$360.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$0.9574	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

Definitions and Conditions

1. Service shall be provided only from Company's existing facilities. When additional facilities are needed to serve customer, an additional charge may be needed.
2. Service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
3. All provisions of this rate schedule are subject to changes made by order of the Commission.

Gas Irrigation Sales Service

Availability

Available in and around the communities specified in the Index to nonresidential customers at single locations for the purpose of crop irrigation. Service is subject to the Definitions and Conditions section below.

Net Monthly Bill

$36.00	Service Charge, plus
	Applicable adjustments and charges provided in Company’s Gas System Reliability Surcharge, plus
$1.6890	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Winter Event Securitized Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer’s Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
3. Service under this rate schedule is subject to the provisions and applicable charges contained in Company’s General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued:	~~February 5, 2019~~	~~18-KGSG-560-RTS~~ ~~Approved~~ ~~Kansas Corporation Commission~~ ~~February 5, 2019~~ ~~/S/ Lynn Retz~~
Effective:	~~February 6, 2019~~	
By:	/S/ Janet L. Buchanan, Director – Regulatory Affairs	

Sales Service for Resale

Availability

Available to utilities and municipal gas systems at single locations for gas for resale outside Company's service territory. Service is subject to Definitions and Conditions below**.**

Net Monthly Bill

$85.00	Service Charge, plus
	Applicable adjustments and charges provided in Company's Gas System Reliability Surcharge, plus
$1.2497	Delivery Charge per Mcf for all gas delivered, plus
	Applicable adjustments and charges provided in Company's Cost of Gas Rider, Sales for Resale Winter Event Cost Recovery Rider and Ad Valorem Tax Surcharge Rider.

The Net Monthly Bill shall be no less than the Service Charge plus any minimum charges set forth in a customer's Service Agreement.

Definitions and Conditions

1. Sales service is provided for the charge specified in the Net Monthly Bill section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.
2. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation.
3. Service under this rate schedule is subject to the provisions and applicable charges contained in Company's General Terms and Conditions for Gas Service, or successor documents, approved by the Commission.
4. All provisions of this rate schedule are subject to changes made by order of the Commission.

Cost of Gas Rider

(a) The Hedge Recovery OC component shall be a volumetric charge calculated by dividing the projected net balance by the sales volumes projected to occur in the months of April through October.

(b) Company shall show the amounts collected from customers through the Hedge Recovery OC component as a separate line item on the customer's bill.

(2) Costs and revenues generated from the settlement of financial derivatives related to Gas Hedge Program sales shall be flowed back as the Hedge Settlement OC component during the months of November through March.

(a) The Hedge Settlement OC component shall be a volumetric charge or credit that is calculated each month from November through March by dividing the monthly estimated hedge payoff amount by the sales volumes projected to occur in that respective month. The estimated payoff amount shall be adjusted to the actual payoff amount in the following month's calculation.

(b) Company shall not be required to show the Hedge Settlement OC component as a separate line item on the customer's bill.

(3) The Hedge Program Year shall be the 12 months beginning with April and ending with March. Any variance remaining at the end of the Hedge Program Year shall be included in the subsequent Actual Cost Adjustment calculation.

d. The reconciliation of the amount of Securitized Utility Tariff Bonds to actual Winter Event costs incurred along with any reductions to those costs as set out in Docket No. 22-KGSG-XXX-TAR. On the first anniversary of the issuance of Securitized Utility Tariff Bonds a comparison is made of actual costs incurred to the securitized amount and any penalty collections received after bond issuance. The difference will be amortized over the remaining life of the securitized bonds. This comparison will take place annually until the disputed invoice and penalty amounts are fully addressed.

Definitions and Conditions

1. All provisions set forth in the rate schedule under which a customer takes service apply to the extent they are not superseded by provisions of this rider.

2. The Computation Year, consisting of the 12 month period ending June 30, shall be the base period for calculation unless otherwise specified.

3. Appropriate Net Gas Costs are those which are properly included in FERC Account Nos. 800, 801, 802, 803, 804, 805, 806, 808, 809, and 811.

Cost of Gas Rider

4. A monthly report shall be filed with the Commission, describing the costs associated with gas and transportation services purchased by Company to meet sales service requirements and included in

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Janet L. Buchanan, being duly sworn upon her oath, deposes and states that she is 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 28 day of March 2022.

STATE OF KANSAS NOTARY PUBLIC
JILL TENNANT
My Appointment Expires
June 21, 2022

Jill Tennant
NOTARY PUBLIC

My appointment Expires:

June 21, 2022

In The Matter of The Application of Kansas Gas Service, a Division of ONE Gas, Inc. For the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order.	)))))	Docket No. 22-KGSG-___ -TAR

DIRECT TESTIMONY

OF

MARK W. SMITH

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

MARCH 31, 2022

EXHIBIT INDEX	
Exhibit	Description of Exhibit
MWS-1	Calculation of Carrying Costs
MWS-2	Estimated Debt Issuance Costs & Ongoing Cost
MWS-3	Analysis of Savings from the use of Securitization compared to Traditional Rate Making and using the COGR
MWS-4	Calculation of Carrying Costs (Low End)
MWS-5	Estimated Debt Issuance Costs & Ongoing Cost (Low End)
MWS-6	Analysis of Savings from the use of Securitization compared to Traditional Rate Making and using the COGR (Low End)
MWS-7	The Servicing Agreement – To be filed within 30 days
MWS-8	The Sales Agreement – To be filed within 30 days

DIRECT TESTIMONY

OF

MARK W. SMITH

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mark W. Smith. My business address is 15 East Fifth Street in Tulsa, Oklahoma.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Vice President and Treasurer for ONE Gas, Inc. ("ONE Gas").

Q. ON WHOSE BEHALF ARE YOU PRESENTING THIS TESTIMONY?

A. I am testifying on behalf of Kansas Gas Service ("Kansas Gas Service" or the "Company"), a Division of ONE Gas, in support of its request to recover the Qualified Extraordinary Costs incurred as a result of the February 2021 Winter Weather Event ("Winter Event") that have been booked to a Regulatory Asset account.

Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND TREASURER FOR ONE GAS?

A. I am responsible for the ONE Gas Accounts Payable Department, Risk and Insurance Department, Captive Insurance Company, Payroll Department, Benefit Accounting Department, Travel and Expense Department, and various investments. I am also responsible for ONE Gas' Finance Department, which is responsible for the daily cash operations of ONE Gas as well as the modeling and issuing of long-term financing to meet the needs of ONE Gas and its operating divisions in Texas, Kansas, and Oklahoma.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelor of Science in Accounting from Oklahoma State University and a Master's in Business Administration from Phillips University. I am also a CPA. I have testified in cases before the Oklahoma Corporation Commission, the Kansas Corporation Commission ("Commission"), Railroad Commission of Texas and Federal Energy Regulatory Commission. I have worked for ONE Gas or ONEOK, Inc., for over 35 years in areas that include Rates and Regulatory, Corporate Accounting, Budgeting, Corporate Development and, for the last 20 years, Treasury.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, I have.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying in support of key aspects of the Company's Application for Financing Order required to satisfy Kansas' Utility Financing and Securitization Act ("Act"). I support the total amount Kansas Gas Service proposes to securitize with the associated carrying cost, the amount of issuance cost associated with the securitization, and the ongoing costs associated with the transaction. In addition, I testify on a fundamental aspect related to the benefits of securitization – the estimated savings that will accrue to the customers. Regarding cost recovery, I detail the reasons for using a fixed rate charge versus a volumetric rate charge. Additionally, I will discuss the need for a speedy process to save the customers as much money as possible. Finally, I am testifying and sponsoring additional agreements Kansas Gas Service and ONE Gas will need to execute to complete the securitization process. These agreements include a servicing agreement that Kansas Gas Service will enter into with the Special Purpose Entity ("SPE"), and the sales agreement to transfer the regulatory asset and Securitized Utility Tariff Property to the SPE. Kansas Gas Service intends to file these agreements and others as the docket progresses. Finally, I am sponsoring the portions of the Financing Order which relate to the issues discussed in my testimony.

Q. ARE YOU SPONSORING ANY EXHIBITS AND WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes, I am sponsoring the exhibits that were prepared by me or under my direction. The exhibits are listed after the cover page of my testimony.

Q. WHAT IS THE ESTIMATED TOTAL OF THE KANSAS GAS SERVICE REGULATORY ASSET WITH CARRYING COST AT THE TIME OF ISSUANCE?

A. Ms. Buchanan's testimony provides the total Qualified Extraordinary Costs incurred by Kansas Gas Service through January 31, 2022. I provide the calculation of carrying costs on these amounts through February 2023. However, the estimated total to be securitized can change depending on when Securitized Utility Tariff Bonds are issued. I have assumed Kansas Gas Service and ONE Gas will issue Securitized Utility Tariff Bonds in February 2023. However, if the Securitized Utility Tariff Bonds are issued later or earlier than this date, the costs incurred can be trued-up using the reconciliation process discussed by Ms. Buchanan with any additional costs or savings accounted for after the reconciliation collected or credited back to customers over the following 12-month period.

The Commission's February 8, 2022, Order Approving Unanimous Settlement Agreement on KGS's Financial Plan ("Financial Plan Settlement Order") in Docket No. 21-KGSG-332-GIG ("21-332 Docket") determined $366,158,817 in Qualified Extraordinary Costs were prudently incurred by Kansas Gas Service. In addition to determining that the Company should be able to recover these costs after true-up and verification, the Financial Plan Settlement Order allows the Company to incur carrying charges at 2% between the time the Qualified Extraordinary Costs were incurred and when the Securitized Utility Tariff Bonds are issued. I have prepared Exhibit MWS-1, with additional Qualified Extraordinary Costs incurred through January 31, 2022, to show the calculation of the total estimated final regulatory asset to be approximately $382.0 million which includes additions to legal and consulting fees. I should also note this total amount will increase due to additional costs the Company will incur to issue the Securitized Utility Tariff Bonds.

Q. CAN YOU OUTLINE WHAT THOSE COSTS ARE?

A. In addition to the legal and consulting costs discussed by Ms. Buchanan, there are various costs associated with debt offerings and the Company's Securitized Utility Tariff Bonds are no different. The Act establishes Financing Costs:

> includes if authorized by the Commission in a Financing Order, costs to issue, service, repay or refinance Securitized Utility Tariff Bonds, whether incurred or paid upon issuance of the Securitized Utility Tariff Bonds or over the life of the Securitized Utility Tariff Bonds.

The Act further provides an expansive list of Financing Costs. For example, premiums payable on the Securitized Utility Tariff Bonds, costs related to issuances (e.g., servicing fees, accounting and auditing fees, trustee fees, legal fees, consulting fees), taxes or license fees, and costs incurred by the Commission to perform its review of the Company's Application are all "Financing Costs" eligible for recovery.

Q. HOW DOES THE COMPANY PLAN TO RECOVER THE FINANCING COSTS ASSOCIATED WITH ISSUING SECURITIZED UTILITY TARIFF BONDS?

A. To the extent possible, Kansas Gas Service proposes to securitize those Financing Costs. In this proceeding, the Company will include those costs as part of the true-up and verification process. For any costs that are not securitized, the Company will utilize the reconciliation process and adjustment mechanism to ensure recovery and payment of those costs.

Q. DO YOU HAVE AN ESTIMATE OF WHAT THE DEBT OFFERING COST WILL BE RELATED TO THESE NOTES?

A. Yes, in discussion with the banks, transactions of similar size have generated issuance costs of roughly $8.0 million. This includes legal fees (for the Company, the underwriter and the trustee), underwriting fees, rating agency fees, servicer set-up fees, accounting/auditor fees, printing/filing fees, the set-up cost of the SPE, and fees for the Commission's financial advisor. I have outlined these costs on Exhibit MWS-2. The issuance costs are about 2.11% of the issuance amount.

Q. WHAT ARE INCLUDED IN THE ONGOING COSTS THAT YOU HAVE INCLUDED IN EXHIBIT MWS-2?

A. Ongoing costs include servicing fees, administrative fees, accounting and auditing fees, legal fees, rating agency surveillance, trustee fees, and the cost of an independent director.

Q. CAN THE DEBT OFFERING AND ONGOING COSTS VARY?

A. Yes. Like any costs, these costs can vary over time. While the costs of the debt offering will be known once Kansas Gas Service's Securitized Utility Tariff Bonds have been issued, the ongoing costs can vary over time. It is not uncommon for vendors such as the rating agencies and trustee to raise their fees periodically with inflation.

Q. HOW HAVE YOU LOOKED AT THE JUSTIFICATION OF SAVINGS TO THE CUSTOMERS FROM THE COST OF SECURITIZATION?

A. First, I looked at the use of the recovery using the Company's Cost of Gas Rider ("COGR"), which would result in customers paying an additional $382 million in a one-year period. As I indicated in my testimony filed in the 21-332 Docket, Kansas Gas Service did not believe it was reasonable, and did not want to attempt, to recover the Winter Event's costs through its Cost of Gas Rider or the rider's twelve-month reconciliation period. Kansas Gas Service's position on customer impact has been directly aligned with minimizing the financial impact of the Winter Event on customers. Recovering the Winter Event's costs through existing regulatory mechanisms is not viable due to the rate shock which would be experienced by customers. Recovering the Winter Event's costs through existing regulatory mechanisms is simply unaffordable for many of our customers. Still, for comparison purposes this is shown in option 1 of my Exhibit MWS-3. Ms. Buchanan shows the actual impact to customers in her testimony. Then I looked at recovering the amount using traditional rate making over a three- and five-year period. These options are shown as option 2 and option 3 in my Exhibit MWS-3. Recall, if the Company's securitization proposal is denied, Kansas Gas Service will seek to recover the Winter Event's costs over a three-year or five-year period using a separate rider. Ms. Buchanan shows the impact to the customers in her testimony. One of the main problems with this option is the impact to the Company's financials. Using a separate rider would effectively require the Company to issue debt and additional equity to fund the three- or five-year amortization. Additionally, options 2 and 3 are not as good for the customers from an affordability perspective as Ms. Buchanan explains in her testimony. Options 4 through 7 look at securitization over a five-year, seven-year, 10-year, and 12-year amortization period. While the 5-year, 7-year, and 10-year are lower cost options for customers, of these three, only the 7-year and 10-year options keep the affordability below ten percent of the average customer's bill. The 12-year option has a total cost that is more than a 3-year traditional option but less than a 5-year traditional option and could also keep the charge within five to ten percent of the customer's bill. Each one of these three options would be more affordable for the customers. The table below summarizes the data from MWS-3 and incorporates some of Ms. Buchanan's data on the customer impact to residential customers.

Option	Total Cost In (millions)	Present Value In (millions)	Annual Cost In (millions)	Average Annual Residential Customer Bill [1]	Percent of an Average Residential Bill [1]
Option 1 – Using the COGR	$407.5	$391.0	$407.5	$1,399.33	36.7%
Option 2 – 3-Year Traditional Ratemaking	$479.5	$424.7	$159.9	$1022.31	19.1%
Option 3 – 5-Year Traditional Ratemaking	$518.4	$424.7	$103.7	$954.19	13.3%
Option 4 – 5-year Securitization	$450.5	$369.0	$90.1	$939.21	11.9%
Option 5 – 7-year Securitization	$463.6	$352.1	$66.3	$909.59	9.0%
Option 6 – 10-year Securitization	$487.3	$331.8	$48.8	$887.84	6.8%
Option 7 – 12-year Securitization	$503.6	$324.0	$42.0	$879.47	5.9%

(1) See Janet Buchanan's testimony for support.

As the table above shows all four of the securitization options provide less of a financial impact to customers than traditional ratemaking options. In fact, the four securitization options are even cheaper than the option of using the COGR on a net present value basis. When looking at customer affordability, the securitization options are the best options for the residential customers and the 10-year amortization is the most attractive option for the customer with it only being 7% of the average residential customers' bill.

Q. DID YOU LOOK AT LONGER PERIODS OF TIME FOR SECURITIZATION?

A. Yes, I have included a 15-year and 20-year option in exhibit MWS-3. Using a 15-year or a 20-year issuance results in costs to the customer which are greater than the costs compared to five-, seven-, and 10-year securitizations. In fact, the costs to customers using 15- or 20-year securitizations are closer to using three- and five-year traditional ratemaking methodologies. In short, securitizing the Winter Event's costs over seven to 12 years provides the most customer savings. Of course, the Company will continue to monitor market developments and if a different recovery period becomes viable it will be explored. Still, based on the information available today an ultimate settlement of 12 years appears to be the maximum securitization period providing tangible customer benefits, with 10 years being the ideal timeframe.

Q. DID YOU CONSIDER THAT THE COMPANY MAY COLLECT PENALTIES PRIOR TO THE ISSUANCE OF THE DEBT WHICH WOULD REDUCE THE AMOUNT THAT NEEDS TO BE SECURITIZED?

A. Yes, I did. For this analysis, I assumed the Company would collect $38,707,050 in penalties before Securitized Utility Tariff Bonds are issued. In looking at this option I created exhibits MWS-4, which shows the approved amount with carrying cost to be $343.2 million; MWS-5, which shows the estimated issuance cost of approximately $7.9 million and the ongoing cost to be approximately $454 thousand; and MWS-6 which shows the analysis of saving from the use of securitization.

Q. DID THE LOWER AMOUNT CHANGE YOUR CONCLUSION OF THE BEST TERM TO USE FOR SECURITIZATION?

A. No, it did not. I still believe that a seven to 12-year amortization period would be the best for the customers. I have attached a chart similar to the one I used in my high case to show the savings.

Option	Total Cost In (millions)	Present Value In (millions)	Annual Cost In (millions)	Average Annual Residential Customer Bill [1]	Percent of an Average Residentia l Bill [1]
Option 1 – Using the COGR	$366.4	$351.6	$336.4	$1,291.23	35.9%
Option 2 – 3-Year Traditional Ratemaking	$431.2	$381.8	$143.7	$1,003.36	17.5%
Option 3 – 5-Year Traditional Ratemaking	$466.1	$381.8	$93.2	$941.86	12.2%
Option 4 – 5-year Securitization	$405.8	$332.4	$81.2	$928.08	10.8%
Option 5 – 7-year Securitization	$417.6	$317.2	$59.7	$901.41	8.2%
Option 6 – 10-year Securitization	$439.0	$298.8	$43.9	$881.82	6.2%
Option 7 – 12-year Securitization	$453.7	$291.8	$37.8	$874.29	5.4%

[1] See Janet Buchanan's testimony for support.

Q. WHY IS THE COMPANY RECOMMENDING A FIXED CUSTOMER CHARGE UNDER THE SECURITIZATION PROPOSAL AS OPPOSED TO A VOLUMETRIC CHARGE?

A. The variability in usage greatly impacts the company's ability to achieve a AAA rated bond rating. There are two unique challenges for natural gas utilities when it comes to securitization. The first has to do with the fact that securitization has only been utilized by a natural gas-only utility once before.[1]

To be sure, ONE Gas' Oklahoma and Texas divisions are currently in the process of securitizing their respective Winter Event's costs. However, from a national perspective, securitization of natural gas related costs is a relatively new concept. The second challenge stems from the nonbypassability of Securitized Utility Tariff Charges and how the Company accounts for customer migration. If these two concerns are not properly addressed, it will lead to uncertainty in the eyes of the rating agencies and a lower bond rating will be the result. If the bonds have lower ratings, they will have higher interest rates, and therefore reduced savings for ratepayers.

Q. WHAT WILL THE RATING AGENCIES LOOK AT WHEN ASSIGNING A AAA RATING TO THE BONDS?

A. The rating agencies are concerned with making sure that there is almost no probability the Securitized Utility Tariff Bonds default. They will look at the state guarantee, the Commission guarantee, the Financing Order, the design of the Securitized Utility Tariff Charge, and the nonbypassibility of the charge. Additionally, rating agencies stress-test the term of the bond(s) using both customers and volumes. In some cases, they may assume

[1] (List of Investor-Owned Utility Securitization ROC/RRB Bond Transactions 1997-Present, Saber Partners. Retrieved at https://saberpartners.com/list-of-investor-owned-utility-securitization-rocrrb-bond-transactions-1997- present/)

as many as 50% of the customers leave the system or that gas usage is cut in half. Additionally, rating agencies are incredibly mindful about each bond payment being made. To be clear, when evaluating the likelihood a bond payment will be made, rating agencies are modeling the variability of volumes from summer to winter or year to year. The Company's throughput is sensitive to the weather which can greatly impact customer volumes and cause concerns in this area. Relying on a fixed customer charge helps isolate and remove these concerns during the rating agencies' analysis.

Q. WHAT ARE YOUR CONCERNS ABOUT THE TIMING OF THE ISSUANCE OF THIS ORDER AND THE IMPACT IT COULD HAVE ON THE CUSTOMERS?

A. With inflation continuing, the Federal Reserve has started to raise interest rates and this will have a significant impact on the rates achieved on the securitized bonds. As an example, my exhibits used rates that were pulled on February 21, 2022, by JP Morgan based on our projected securitization. Since then, on March 16, the Federal announced a 25 basis point rate hike, bringing the Fed Funds target range to 0.25% - 0.50%. This had an impact on longer term rates both before the announcement as anticipation grew and after the announcement. The Federal Reserve is penciling in rate hikes at every remaining meeting this year, which is a hawkish decision that surprised markets and in which the Federal Reserve hopes to calm inflation. The chart below shows interest rates for different terms of treasury notes on March 18, 2022, 1 week prior, 1 month prior, and 3 months prior.

As of:	2-yr	3-yr	5-yr	7-yr	10-yr	20-yr	30-yr
3/18/2022	1.95%	2.15%	2.14%	2.17%	2.15%	2.53%	2.42%
1 Week Ago	1.75%	1.92%	1.96%	2.01%	2.00%	2.45%	2.36%
1 Month Ago	1.47%	1.68%	1.82%	1.91%	1.93%	2.31%	2.25%
3 Months Ago	0.63%	0.91%	1.16%	1.33%	1.42%	1.88%	1.85%

This chart clearly shows the impact the Federal Reserve has on interest rates and the need to act quickly to maximize customer savings.

Q. DO YOU HAVE ANY ESTIMATES AS TO WHAT RATES MAY LOOK LIKE IN THE FUTURE?

A. Yes, I have gathered information from several banks and all show rates to be increasing in the next 12 months. Below is a forecast I received from JP Morgan which gives their view on rates for the next four quarters.

J.P. Morgan interest rate forecasts

	Present	2Q22	3Q22	4Q22	1Q23
Fed funds upper bound	0.50%	1.00%	1.50%	2.00%	2.50%
Overnight SOFR	0.05%	0.65%	1.15%	1.65%	2.20%
3-month LIBOR	0.93%	1.15%	1.65%	2.20%	2.55%
2-year U.S. Treasury	1.95%	1.80%	2.15%	2.35%	2.55%
3-year U.S. Treasury	2.15%	2.05%	2.30%	2.45%	2.55%
5-year U.S. Treasury	2.14%	2.15%	2.35%	2.45%	2.55%
7-year U.S. Treasury	2.17%	2.20%	2.40%	2.50%	2.55%
10-year U.S. Treasury	2.15%	2.20%	2.40%	2.50%	2.55%
30-year U.S. Treasury	2.42%	2.40%	2.50%	2.55%	2.55%

Q. HOW LONG WILL IT TAKE THE COMPANY TO ISSUE THE DEBT ONCE THE FINANCING ORDER IS RECEIVED?

A. Based on work in the other two states that we serve it could take up to an additional three to five months. The rating agencies will not rate an offering of this type until a financing order has been issued, and a number of legal opinions have been provided. It then will take the rating agencies two to three months to issue a rating. Only at that point will the Company be in a position to issue the debt and we will have to make sure that the Company is not in a blackout period. At that point the Company will work with its banks to find an opportune time in the market to try and place the bonds.

Q. BEYOND FINANCIAL ANALYSIS AND INSIGHT, ARE YOU SPONSORING ANY ADDITIONAL AGREEMENTS OR EXHIBITS?

A. Yes. For the Company's proposed Financing Order to operate and become effective, a number of additional agreements are required. These agreements cover the mechanics of the Company's securitization proposal. For example, ONE Gas will create a SPE and transfer the Company's interest in Securitized Utility Tariff Property to the SPE. Accordingly, a transfer and sales agreement must be created and executed. Because Kansas Gas Service will act as a "servicer" for the SPE (i.e., billing customers Securitized Utility Tariff Charges and remitting payments to the SPE's Trustee), a servicing agreement must be created and executed. I am sponsoring a series of these agreements which are critical to the Company's proposed Financing Order.

Q. ARE YOU SPONSORING THE SERVICING AGREEMENT THAT KANSAS GAS SERVICE WILL ENTER INTO WITH THE SPE?

A. Yes. This agreement will require Kansas Gas Service to bill, collect, and remit payments to the SPE. It also lays out the reporting requirements to the Commission, the Trustee, and the rating agencies.

Q. ARE YOU SPONSORING THE PURCHASE AND SALES AGREEMENT BETWEEN KANSAS GAS SERVICE AND THE SPE?

A. Yes. This agreement identifies the Securitized Utility Tariff Property created by the Company's proposed Financing Order as the asset to be sold to the SPE. Likewise, this agreement documents Kansas Gas Service no longer has any liability or asset associated with the Winter Event.

Q. ARE THERE ANY OTHER AGREEMENTS THE COMPANY INTENDS TO PROVIDE FOR WHICH YOU WILL SPONSOR?

A. Yes. The issuance of Securitized Utility Tariff Bonds will require additional agreements to be prepared by Kansas Gas Service and ONE Gas. As noted by Mr. Atkins, Kansas Gas Service and ONE Gas will form a SPE to facilitate the securitization process. Once a draft form of the SPE LLC Agreement is prepared, Kansas Gas Service will file the draft agreement in this docket as a late-filed exhibit. Once the SPE LLC Agreement is officially executed, Kansas Gas Service will submit the agreement to the Commission.

Q. WHY WILL KANSAS GAS SERVICE SUBMIT THE SPE LLC AGREEMENT TO THE COMMISSION TWICE, ONCE IN DRAFT FORM AND ONCE UPON EXECUTION?

A. I am not a lawyer, however it is my understanding the SPE LLC Agreement, and others like it, will be considered a contract with an affiliated interest. K.S.A. 66-1402 requires these contracts be submitted to the Commission. While the Act does not require these agreements be submitted with Kansas Gas Service's application, the Company intends to provide as much transparency into its securitization process as possible. Therefore, Kansas Gas Service intends to provide this information in draft form for stakeholder review, as well as in compliance with the Commissions' affiliated interest statutes.

Q. WHAT AGREEMENTS WILL KANSAS GAS SERVICE SUBMIT TO THE COMMISSION?

A. In this proceeding, Kansas Gas Service will provide four agreements: (1) the Purchase and Sales Agreement; (2) the Servicing Agreement; (3) the indenture between the SPE and Indenture Trustee; and, (4) the SPE LLC Agreement. Within 30 days of filing its Application, Kansas Gas Service will submit these agreements as late-filed exhibits. Once these agreements have been completed and executed, Kansas Gas Service will provide these agreements to the Commission pursuant to the Commission's affiliated interest statutes.

Q. MR. ATKINS REFERS TO A "CAPITAL SUBACCOUNT" IN HIS TESTIMONY. ARE YOU FRAMILIAR WITH THIS?

A. Yes. The capital subaccount is part of a collection account, which is established by the SPE as a trust account held by the Trustee to ensure the scheduled payment of principal, interest, and costs associated with Kansas Gas Service's Securitized Utility Tariff Bonds are paid in full and on a timely basis. The capital subaccount represents the equity capital of the SPE, which is funded from a contribution by Kansas Gas Service at the time the Securitized Utility Tariff Bonds are issued. This contribution will equal 0.50% of the initial Securitized Utility Tariff Bond balance.

Q. DOES THE ACT SETOUT ANY PARAMETERS FOR CAPITAL SUBACCOUNTS?

A. Yes. K.S.A. 66-1,241(e)(14) requires a Financing Order create:

> a procedure that allows the public utility to earn a return, at the cost of capital authorized from time to time by the commission in the public utility's rate proceedings, on any moneys advanced by the public utility to fund reserves, if any, or capital accounts established under the terms of any indenture, ancillary agreement or other financing documents pertaining to the securitized utility tariff bonds.

Q. WHAT IS THE COST OF CAPITAL THE COMMISSION SHOULD APPLY TO THE CAPITAL SUBACCOUNT?

A. Kansas Gas Service's last general rate proceeding, Docket No. 18-KGSG-560-RTS ("18-560 Docket"), resulted in a Partial Unanimous Settlement Agreement which did not address Kansas Gas Service's capital structure. Kansas Gas Service proposes to use 8.60% as the cost of capital (a 9.0984% pre-tax rate of return) for the capital subaccount. This proposal is based off Staff's testimony on the Partial Unanimous Settlement Agreement in the 18-560 Docket. While this is the current cost of capital, the cost of capital will change in Kansas Gas Service's next and future rate cases.

Q. ARE THERE ANY ASPECTS OF THE ISSUANCE PROCESS YOU ARE SPONSORING?

A. Yes. Kansas Gas Service's proposed Financing Order establishes several items regarding the Issuance Advice Letter Process. Among others, I am sponsoring these aspects of the proposed Financing Order.

Q. DO YOU HAVE ANY ADDITIONAL ITEMS TO TESTIFY TO TODAY?

A. No, not at this time. Thank you.

EXHIBIT MWS-1

Kansas Gas Service
Exhibit MWS-1
Calculation of Carrying Costs

Line No.	Month (a)	KGS regulatory asset beginning of Month balance (b)	Change in KGS regulatory asset balance (c)	KGS portion of OGS regulatory asset (d)	Carrying costs (e) (e) = (h)	Total KGS regulatory asset balance at the end of the month (f) b + c + d + e	Weighted Average Cost of Capital (see MWS-6) (g)	Carrying Costs (j) (b + c + d)*(g / 12)	Cumulative carrying cost (k)	
1	Mar-21	$ 379,453,905		$ 6,820,641	$ 433,651	$ 386,708,197	2.000%	433,651	$ 433,651	(1)
2	Apr-21	386,708,197	(6,186,202)	183,032	634,508	381,339,536	2.000%	634,508	1,068,159	
3	May-21	381,339,536	90,392	(26,084)	635,673	382,039,517	2.000%	635,673	1,703,832	
4	Jun-21	382,039,517	(44,377)	(1,918)	636,655	382,629,877	2.000%	636,655	2,340,488	
5	Jul-21	382,629,877	785,270	144,641	639,266	384,199,054	2.000%	639,266	2,979,754	
6	Aug-21	384,199,054	53,375	(10,295)	640,404	384,882,538	2.000%	640,404	3,620,158	
7	Sep-21	384,882,538	227,850	2,827	641,855	385,755,070	2.000%	641,855	4,262,013	
8	Oct-21	385,755,070	17,298	764	642,955	386,416,087	2.000%	642,955	4,904,968	
9	Nov-21	386,416,087	188,333	4,024	644,347	387,252,792	2.000%	644,347	5,549,316	
10	Dec-21	387,252,792	(14,647,172)	431	621,010	373,227,061	2.000%	621,010	6,170,326	
11	Jan-22	373,227,061	161,989	(231,679)	621,929	373,779,300	2.000%	621,929	6,792,255	
12	Feb-22	373,779,300	-	-	622,965	374,402,265	2.000%	622,965	7,415,220	
13	Mar-22	374,402,265	-	-	624,004	375,026,269	2.000%	624,004	8,039,224	
14	Apr-22	375,026,269	-	-	625,044	375,651,313	2.000%	625,044	8,664,268	
15	May-22	375,651,313	-	-	626,086	376,277,399	2.000%	626,086	9,290,353	
16	Jun-22	376,277,399	-	-	627,129	376,904,528	2.000%	627,129	9,917,482	
17	Jul-22	376,904,528	-	-	628,174	377,532,702	2.000%	628,174	10,545,656	
18	Aug-22	377,532,702	-	-	629,221	378,161,923	2.000%	629,221	11,174,878	
19	Sep-22	378,161,923	-	-	630,270	378,792,193	2.000%	630,270	11,805,148	
20	Oct-22	378,792,193	-	-	631,320	379,423,513	2.000%	631,320	12,436,468	
21	Nov-22	379,423,513	-	-	632,373	380,055,886	2.000%	632,373	13,068,840	
22	Dec-22	380,055,886	-	-	633,426	380,689,312	2.000%	633,426	13,702,267	
23	Jan-23	380,689,312	-	-	634,482	381,323,794	2.000%	634,482	14,336,749	
24	Feb-23	381,323,794	-	-	635,540	381,959,334	2.000%	635,540	14,972,289	
25					$ 14,972,289					
26										
27		Less Sales for Resale				$ (256,141)				
28		Final Regulatory Asset				$ 381,703,193				

(1) reflects actual day's outstanding

EXHIBIT MWS-2

Kansas Gas Service
Exhibit MWS-2
Estimate of Debt Issuance Costs & Ongoing Costs

Line No.				
1	**Issuance Amount**		**$**	**381,703,193**
2				
3	**Issuance Costs**			
4	Legal		$	1,300,000
5	Underwriting Fee	0.40%	$	1,526,813
6	Issuer/Underwriter Legal Fees		$	2,900,000
7	Trustee Payment and Legal Fees		$	50,000
8	Rating Agency Fees		$	750,000
9	Servicer Set-up Fees		$	500,000
10	Accountants/Auditors Fees		$	250,000
11	Printing/Filing/SEC Registration		$	100,000
12	SPV Set-Up Fee		$	100,000
13	Commission's Financial Advisor Fee		$	500,000
14	Total Issuance Costs		$	7,976,813
15				
16	**Ongoing Costs**			
17	Servicing Fees	0.05%	$	190,852
18	Admin Fees		$	100,000
19	Accounting Fees	0.02%	$	76,341
20	Legal Fees	0.01%	$	38,170
21	Rating Agency Surveillance		$	60,000
22	Trustee Fees		$	15,000
23	Independent Director Fees		$	5,000
24	Total Ongoing Costs		$	485,363
25				
26	Total Costs		$	8,462,175
27	Issuance Costs (% of Issuance Amount)			2.09%
28	Ongoing Costs (% of Issuance Amount)			0.13%

EXHIBIT MWS-3

Kansas Gas Service
Exhibit MWS-3
Analysis of Savings from the use of Securitization
Comparison of Traditional Rate Making to Securitization

$s in millions

Option 1 - Recover through COGR

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 1 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 381.7	0.0%	$ -	0.00%	$ -	21.00%	$ -	$ 381.7	6.33%	$ 25.8	$ 407.5	$ 391.0
			$ -		$ -		$ -	$ 381.7		$ 25.8	**$ 407.5**	**$ 391.0**

Option 2 - Traditional Ratemaking financing over 3 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 3 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 381.7	7.2%	$ 27.5	5.22%	$ 19.9	21.00%	$ 5.3	$ 116.9	6.33%	$ 10.1	$ 159.9	$ 153.4
Year 2	264.8	7.2%	19.1	5.22%	13.8	21.00%	3.7	127.0	6.33%	10.1	159.9	141.3
Year 3	137.8	7.2%	9.9	5.22%	7.2	21.00%	1.9	137.8	6.33%	10.1	159.8	130.0
			$ 56.6		$ 40.9		$ 10.9	$ 381.7		$ 30.4	**$ 479.5**	**$ 424.7**

Option 3 - Traditional Ratemaking financing over 5 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) /5 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 381.7	7.2%	$ 27.5	5.22%	$ 19.9	21.00%	$ 5.3	$ 64.3	6.33%	$ 6.6	$ 103.7	$ 99.5
Year 2	317.4	7.2%	22.9	5.22%	16.6	21.00%	4.4	69.8	6.33%	6.6	103.7	91.6
Year 3	247.6	7.2%	17.9	5.22%	12.9	21.00%	3.4	75.8	6.33%	6.6	103.7	84.3
Year 4	171.8	7.2%	12.4	5.22%	9.0	21.00%	2.4	82.4	6.33%	6.6	103.7	77.7
Year 5	89.4	7.2%	6.5	5.22%	4.7	21.00%	1.2	89.4	6.33%	6.6	103.7	71.5
			$ 87.2		$ 63.0		$ 16.8	$ 381.7		$ 32.8	**$ 518.4**	**$ 424.7**

Option 4 - Securitization using a levelized payment over 5 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 5 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 390.2	2.67%	$ 10.4	0.00%	$ -	0.00%	$ -	$ 74.0	6.33%	5.7	$ 90.1	$ 86.5
Year 2	316.2	2.67%	8.4	0.00%	-	0.00%	-	$ 76.0	6.33%	5.7	90.1	79.7
Year 3	240.2	2.67%	6.4	0.00%	-	0.00%	-	$ 78.0	6.33%	5.7	90.1	73.3
Year 4	162.2	2.67%	4.3	0.00%	-	0.00%	-	$ 80.1	6.33%	5.7	90.1	67.5
Year 5	82.1	2.67%	2.2	0.00%	-	0.00%	-	$ 82.1	6.33%	5.7	90.0	62.1
			$ 31.8		$ -		$ -	$ 390.2		$ 28.5	**$ 450.5**	**$ 369.0**

Option 5 - Securitization using a levelized payment over 7 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 7 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 390.2	2.75%	$ 10.7	0.00%	$ -	0.00%	$ -	$ 51.4	6.33%	$ 4.2	$ 66.3	$ 63.6
Year 2	338.8	2.75%	9.3	0.00%	-	0.00%	-	$ 52.8	6.33%	4.2	66.3	58.6
Year 3	286.0	2.75%	7.9	0.00%	-	0.00%	-	$ 54.2	6.33%	4.2	66.3	53.9
Year 4	231.8	2.75%	6.4	0.00%	-	0.00%	-	$ 55.7	6.33%	4.2	66.3	49.6
Year 5	176.1	2.75%	4.8	0.00%	-	0.00%	-	$ 57.2	6.33%	4.2	66.2	45.7
Year 6	118.9	2.75%	3.3	0.00%	-	0.00%	-	$ 58.7	6.33%	4.2	66.2	42.0
Year 7	60.2	2.75%	1.7	0.00%	-	0.00%	-	$ 60.2	6.33%	4.2	66.0	38.6
			$ 44.0		$ -		$ -	$ 390.2		$ 29.3	$ 463.6	$ 352.1

Option 6 - Securitization using a levelized payment over 10 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 10 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 390.2	2.96%	$ 11.5	0.00%	$ -	0.00%	$ -	$ 34.2	6.33%	$ 3.1	$ 48.8	$ 46.9
Year 2	356.0	2.96%	10.5	0.00%	-	0.00%	-	$ 35.2	6.33%	3.1	48.8	43.1
Year 3	320.8	2.96%	9.5	0.00%	-	0.00%	-	$ 36.2	6.33%	3.1	48.8	39.7
Year 4	284.6	2.96%	8.4	0.00%	-	0.00%	-	$ 37.2	6.33%	3.1	48.7	36.5
Year 5	247.4	2.96%	7.3	0.00%	-	0.00%	-	$ 38.3	6.33%	3.1	48.7	33.6
Year 6	209.1	2.96%	6.2	0.00%	-	0.00%	-	$ 39.4	6.33%	3.1	48.7	30.9
Year 7	169.7	2.96%	5.0	0.00%	-	0.00%	-	$ 40.6	6.33%	3.1	48.7	28.5
Year 8	129.1	2.96%	3.8	0.00%	-	0.00%	-	$ 41.8	6.33%	3.1	48.7	26.2
Year 9	87.3	2.96%	2.6	0.00%	-	0.00%	-	$ 43.0	6.33%	3.1	48.7	24.1
Year 10	44.3	2.96%	1.3	0.00%	-	0.00%	-	$ 44.3	6.33%	3.1	48.7	22.2
			$ 66.2		$ -		$ -	$ 390.2		$ 30.8	$ 487.3	$ 331.8

Kansas Gas Service
Exhibit MWS-3
Analysis of Savings from the use of Securitization
Comparison of Traditional Rate Making to Securitization
$s in millions

Option 7 - Securitization using a levelized payment over 12 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 12 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 390.2	3.05%	$ 11.9	0.00%	$ -	0.00%	$ -	$ 27.4	6.33%	$ 2.7	$ 42.0	$ 40.3
Year 2	362.8	3.05%	11.1	0.00%	-	0.00%	-	$ 28.3	6.33%	2.7	42.0	37.1
Year 3	334.5	3.05%	10.2	0.00%	-	0.00%	-	$ 29.1	6.33%	2.7	42.0	34.1
Year 4	305.4	3.05%	9.3	0.00%	-	0.00%	-	$ 30.0	6.33%	2.7	42.0	31.4
Year 5	275.4	3.05%	8.4	0.00%	-	0.00%	-	$ 31.0	6.33%	2.7	42.0	29.0
Year 6	244.4	3.05%	7.5	0.00%	-	0.00%	-	$ 31.9	6.33%	2.7	42.0	26.7
Year 7	212.5	3.05%	6.5	0.00%	-	0.00%	-	$ 32.9	6.33%	2.7	42.0	24.6
Year 8	179.6	3.05%	5.5	0.00%	-	0.00%	-	$ 33.9	6.33%	2.7	42.0	22.6
Year 9	145.7	3.05%	4.4	0.00%	-	0.00%	-	$ 34.9	6.33%	2.7	42.0	20.8
Year 10	110.8	3.05%	3.4	0.00%	-	0.00%	-	$ 35.9	6.33%	2.7	41.9	19.1
Year 11	74.9	3.05%	2.3	0.00%	-	0.00%	-	$ 36.9	6.33%	2.6	41.8	19.1
Year 12	38.0	3.05%	1.2	0.00%	-	0.00%	-	$ 38.0	6.33%	2.6	41.8	19.1
			$ 81.6		$ -		$ -	$ 390.2		$ 31.9	$ 503.6	$ 324.0

Option 8 - Securitization using a levelized payment over 15 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 15 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 390.2	3.19%	$ 12.4	0.00%	$ -	0.00%	$ -	$ 20.8	6.33%	$ 2.2	$ 35.5	$ 34.1
Year 2	369.4	3.19%	11.8	0.00%	-	0.00%	-	$ 21.4	6.33%	2.2	35.4	31.3
Year 3	348.0	3.19%	11.1	0.00%	-	0.00%	-	$ 22.1	6.33%	2.2	35.4	28.8
Year 4	325.9	3.19%	10.4	0.00%	-	0.00%	-	$ 22.8	6.33%	2.2	35.4	26.5
Year 5	303.1	3.19%	9.7	0.00%	-	0.00%	-	$ 23.4	6.33%	2.2	35.3	24.4
Year 6	279.7	3.19%	8.9	0.00%	-	0.00%	-	$ 24.2	6.33%	2.2	35.4	22.5
Year 7	255.5	3.19%	8.1	0.00%	-	0.00%	-	$ 25.0	6.33%	2.2	35.4	20.7
Year 8	230.5	3.19%	7.4	0.00%	-	0.00%	-	$ 25.7	6.33%	2.2	35.3	19.0
Year 9	204.8	3.19%	6.5	0.00%	-	0.00%	-	$ 26.6	6.33%	2.2	35.4	17.5
Year 10	178.2	3.19%	5.7	0.00%	-	0.00%	-	$ 27.4	6.33%	2.2	35.3	16.1
Year 11	150.8	3.19%	4.8	0.00%	-	0.00%	-	$ 28.3	6.33%	2.2	35.3	16.1
Year 12	122.5	3.19%	3.9	0.00%	-	0.00%	-	$ 29.2	6.33%	2.2	35.3	16.1
Year 13	93.3	3.19%	3.0	0.00%	-	0.00%	-	$ 30.1	6.33%	2.2	35.3	16.1
Year 14	63.2	3.19%	2.0	0.00%	-	0.00%	-	$ 31.1	6.33%	2.2	35.4	16.1
Year 15	32.1	3.19%	1.0	0.00%	-	0.00%	-	$ 32.1	6.33%	2.2	35.4	16.1
			$ 106.8		$ -		$ -	$ 390.2		$ 33.6	$ 530.5	$ 321.6

Option 9 - Securitization using a levelized payment over 20 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 20 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 390.2	3.39%	$ 13.2	0.00%	$ -	0.00%	$ -	$ 14.0	6.33%	$ 1.8	$ 29.1	$ 27.9
Year 2	376.2	3.39%	12.8	0.00%	-	0.00%	-	$ 14.4	6.33%	1.8	29.0	25.6
Year 3	361.8	3.39%	12.3	0.00%	-	0.00%	-	$ 14.9	6.33%	1.8	29.0	23.6
Year 4	346.9	3.39%	11.8	0.00%	-	0.00%	-	$ 15.4	6.33%	1.8	29.0	21.7
Year 5	331.5	3.39%	11.2	0.00%	-	0.00%	-	$ 16.0	6.33%	1.8	29.1	20.1
Year 6	315.5	3.39%	10.7	0.00%	-	0.00%	-	$ 16.5	6.33%	1.8	29.0	18.4
Year 7	299.0	3.39%	10.1	0.00%	-	0.00%	-	$ 17.1	6.33%	1.8	29.1	17.0
Year 8	281.9	3.39%	9.6	0.00%	-	0.00%	-	$ 17.6	6.33%	1.8	29.0	15.6
Year 9	264.3	3.39%	9.0	0.00%	-	0.00%	-	$ 18.2	6.33%	1.8	29.0	14.4
Year 10	246.1	3.39%	8.3	0.00%	-	0.00%	-	$ 18.9	6.33%	1.8	29.1	13.3
Year 11	227.2	3.39%	7.7	0.00%	-	0.00%	-	$ 19.5	6.33%	1.8	29.0	13.3
Year 12	207.7	3.39%	7.0	0.00%	-	0.00%	-	$ 20.2	6.33%	1.8	29.1	13.3
Year 13	187.5	3.39%	6.4	0.00%	-	0.00%	-	$ 20.8	6.33%	1.8	29.0	13.2
Year 14	166.7	3.39%	5.6	0.00%	-	0.00%	-	$ 21.6	6.33%	1.8	29.1	13.3
Year 15	145.1	3.39%	4.9	0.00%	-	0.00%	-	$ 22.3	6.33%	1.8	29.1	13.3
Year 16	122.8	3.39%	4.2	0.00%	-	0.00%	-	$ 23.0	6.33%	1.8	29.0	13.2
Year 17	99.8	3.39%	3.4	0.00%	-	0.00%	-	$ 23.7	6.33%	1.8	28.9	13.2
Year 18	76.1	3.39%	2.6	0.00%	-	0.00%	-	$ 24.5	6.33%	1.8	28.9	13.2
Year 19	51.6	3.39%	1.7	0.00%	-	0.00%	-	$ 25.4	6.33%	1.8	29.0	13.2
Year 20	26.2	3.39%	0.9	0.00%	-	0.00%	-	$ 26.2	6.33%	1.8	28.9	13.2
			$ 153.3		$ -		$ -	$ 390.2		$ 36.7	$ 580.3	$ 330.0

Kansas Gas Service
Exhibit MWS-3
Analysis of Savings from the use of Securitization
Comparison of Traditional Rate Making to Securitization
$s in millions

Cost of Capital

Source of Capital	Capital Structure	Cost	WACC
Common equity	56.12%	9.30%	5.22%
Long term debt	43.88%	4.55%	2.00%
Total Capitalization	100.00%		7.22%
Taxes			1.39%
Total Cost of Capital			8.60%

Based on Justin Grady's testimony in Docket No. 18-KGSC-560-RTS

Cost of Securitized Debt for a 5-Year Deal

One-tranche Structure
5.25 year recovery period

	Class A-1	Total
Target Rating	AAA	AAA
Issue Amount ($mm)	$380.0	$380.0
Class split (%)	100%	100%
Weighted Average Lif	2.94	2.94
Expected Final Maturi	5.25	5.25
Coupon	2.21%	2.21%
Benchmark (UST)	1.666%	1.666%
Spread to Benchmark	0.550%	0.550%
Offer yield	2.216%	2.216%
Annual principal, interest and other expense ($mm)		**$77.7**
Total debt service, incl. servicing and other costs (%)		**2.67%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 7-Year Deal

One-tranche Structure
7.25 year recovery period

	Class A-1	Total
Target Rating	AAA	AAA
Issue Amount ($mm)	$380.0	$380.0
Class split (%)	100%	100%
Weighted Average Lif	3.99	3.99
Expected Final Maturi	7.25	7.25
Coupon	2.34%	2.34%
Benchmark (UST)	1.749%	1.749%
Spread to Benchmark	0.600%	0.600%
Offer yield	2.349%	2.349%
Annual principal, interest and other expense ($mm)		**$57.9**
Total debt service, incl. servicing and other costs (%)		**2.75%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 10-Year Deal

Two-tranche Structure
10.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	3.18	8.27	5.60
Expected Final Maturi	5.75	10.25	10.25
Coupon	2.24%	2.74%	2.58%
Benchmark (UST)	1.691%	1.922%	1.849%
Spread to Benchmark	0.550%	0.820%	0.737%
Offer yield	2.241%	2.742%	2.586%
Annual principal, interest and other expense ($mm)			**$43.0**
Total debt service, incl. servicing and other costs (%)			**2.96%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 12-Year Deal

Two-tranche Structure
12.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	3.82	9.90	6.70
Expected Final Maturi	7.25	12.25	12.25
Coupon	2.33%	2.87%	2.70%
Benchmark (UST)	1.737%	1.930%	1.901%
Spread to Benchmark	0.600%	0.950%	0.808%
Offer yield	2.337%	2.880%	2.709%
Annual principal, interest and other expense ($mm)			**$37.2**
Total debt service, incl. servicing and other costs (%)			**3.05%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 15-Year Deal

Two-tranche Structure
15.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	4.81	12.38	8.40
Expected Final Maturi	9.25	15.25	15.25
Coupon	2.45%	3.06%	2.86%
Benchmark (UST)	1.808%	2.020%	1.923%
Spread to Benchmark	0.650%	1.050%	0.951%
Offer yield	2.458%	3.070%	2.874%
Annual principal, interest and other expense ($mm)			**$31.5**
Total debt service, incl. servicing and other costs (%)			**3.19%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 20-Year Deal

Two-tranche Structure
20.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	6.63	16.60	11.35
Expected Final Maturi	12.25	20.25	20.25
Coupon	2.64%	3.32%	3.09%
Benchmark (UST)	1.898%	2.176%	1.981%
Spread to Benchmark	0.750%	1.150%	1.119%
Offer yield	2.648%	3.326%	3.100%
Annual principal, interest and other expense ($mm)			**$26.0**
Total debt service, incl. servicing and other costs (%)			**3.39%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

EXHIBIT MWS-4

Kansas Gas Service
Exhibit MWS-4
Calculation of Carrying Costs

Line No.	Month (a)	KGS regulatory asset beginning of Month balance (b)	Change in KGS regulatory asset balance (c)	KGS portion of OGS regulatory asset (d)	Carrying costs (e) (e) = (h)	Total KGS regulatory asset balance at the end of the month (f) b + c + d + e	Weighted Average Cost of Capital (see MWS-6) (g)	Carrying Costs (j) (b + c + d)*(g / 12)	Cumulative carrying cost (k)	
1	Mar-21	$ 379,453,905		$ 6,820,641	$ 433,651	$ 386,708,197	2.000%	433,651	$ 433,651	(1)
2	Apr-21	386,708,197	(6,186,202)	183,032	634,508	381,339,536	2.000%	634,508	1,068,159	
3	May-21	381,339,536	90,392	(26,084)	635,673	382,039,517	2.000%	635,673	1,703,832	
4	Jun-21	382,039,517	(44,377)	(1,918)	636,655	382,629,877	2.000%	636,655	2,340,488	
5	Jul-21	382,629,877	785,270	144,641	639,266	384,199,054	2.000%	639,266	2,979,754	
6	Aug-21	384,199,054	53,375	(10,295)	640,404	384,882,538	2.000%	640,404	3,620,158	
7	Sep-21	384,882,538	227,850	2,827	641,855	385,755,070	2.000%	641,855	4,262,013	
8	Oct-21	385,755,070	17,298	764	642,955	386,416,087	2.000%	642,955	4,904,968	
9	Nov-21	386,416,087	188,333	4,024	644,347	387,252,792	2.000%	644,347	5,549,316	
10	Dec-21	387,252,792	(14,647,172)	431	621,010	373,227,061	2.000%	621,010	6,170,326	
11	Jan-22	373,227,061	161,989	(231,679)	621,929	373,779,300	2.000%	621,929	6,792,255	
12	Feb-22	373,779,300	-	-	622,965	374,402,265	2.000%	622,965	7,415,220	
13	Mar-22	374,402,265	-	-	624,004	375,026,269	2.000%	624,004	8,039,224	
14	Apr-22	375,026,269	-	-	625,044	375,651,313	2.000%	625,044	8,664,268	
15	May-22	375,651,313	-	-	626,086	376,277,399	2.000%	626,086	9,290,353	
16	Jun-22	376,277,399	-	-	627,129	376,904,528	2.000%	627,129	9,917,482	
17	Jul-22	376,904,528	-	-	628,174	377,532,702	2.000%	628,174	10,545,656	
18	Aug-22	377,532,702	-	-	629,221	378,161,923	2.000%	629,221	11,174,878	
19	Sep-22	378,161,923	-	-	630,270	378,792,193	2.000%	630,270	11,805,148	
20	Oct-22	378,792,193	-	-	631,320	379,423,513	2.000%	631,320	12,436,468	
21	Nov-22	379,423,513	-	-	632,373	380,055,886	2.000%	632,373	13,068,840	
22	Dec-22	380,055,886	-	-	633,426	380,689,312	2.000%	633,426	13,702,267	
23	Jan-23	380,689,312	-	-	634,482	381,323,794	2.000%	634,482	14,336,749	
24	Feb-23	381,323,794	(38,707,050)	-	571,028	343,187,772	2.000%	571,028	14,907,777	
25					$ 14,907,777					
26										
27		Less Sales for Resale				$ (230,141)				
28		Final Regulatory Asset				$ 343,187,772				

(1) reflects actual day's outstanding

EXHIBIT MWS-5

Kansas Gas Service
Exhibit MWS-5
Estimate of Debt Issuance Costs & Ongoing Costs

Line No.				
1	**Issuance Amount**		**$**	**343,187,772**
2				
3	**Issuance Costs**			
4	Legal		$	1,300,000
5	Underwriting Fee	0.40%	$	1,372,751
6	Issuer/Underwriter Legal Fees		$	2,900,000
7	Trustee Payment and Legal Fees		$	50,000
8	Rating Agency Fees		$	750,000
9	Servicer Set-up Fees		$	500,000
10	Accountants/Auditors Fees		$	250,000
11	Printing/Filing/SEC Registration		$	100,000
12	SPV Set-Up Fee		$	100,000
13	Commission's Financial Advisor Fee		$	500,000
14	Total Issuance Costs		$	7,822,751
15				
16	**Ongoing Costs**			
17	Servicing Fees	0.05%	$	171,594
18	Admin Fees		$	100,000
19	Accounting Fees	0.02%	$	68,638
20	Legal Fees	0.01%	$	34,319
21	Rating Agency Surveillance		$	60,000
22	Trustee Fees		$	15,000
23	Independent Director Fees		$	5,000
24	Total Ongoing Costs		$	454,550
25				
26	Total Costs		$	8,277,301
27	Issuance Costs (% of Issuance Amount)			2.28%
28	Ongoing Costs (% of Issuance Amount)			0.13%

EXHIBIT MWS-6

Kansas Gas Service
Exhibit MWS-6
Analysis of Savings from the use of Securitization (Low Analysis)
Comparison of Traditional Rate Making to Securitization
$s in millions

Option 1 - Recover through COGR

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 1 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 343.2	0.0%	$ -	0.00%	$ -	21.00%	$ -	$ 343.2	6.33%	$ 23.2	$ 366.4	$ 351.6
			$ -		$ -		$ -	$ 343.2		$ 23.2	**$ 366.4**	**$ 351.6**

Option 2 - Traditional Ratemaking financing over 3 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 3 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 343.2	7.2%	$ 24.8	5.22%	$ 17.9	21.00%	$ 4.8	$ 105.1	6.33%	$ 9.1	$ 143.7	$ 137.9
Year 2	238.1	7.2%	17.2	5.22%	12.4	21.00%	3.3	114.1	6.33%	9.1	143.7	126.9
Year 3	124.0	7.2%	8.9	5.22%	6.5	21.00%	1.7	124.0	6.33%	9.1	143.8	117.0
			$ 50.9		$ 36.8		$ 9.8	$ 343.2		$ 27.3	**$ 431.2**	**$ 381.8**

Option 3 - Traditional Ratemaking financing over 5 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 5 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 343.2	7.2%	$ 24.8	5.22%	$ 17.9	21.00%	$ 4.8	$ 57.8	6.33%	$ 5.9	$ 93.2	$ 89.5
Year 2	285.4	7.2%	20.6	5.22%	14.9	21.00%	4.0	62.8	6.33%	5.9	93.3	82.4
Year 3	222.6	7.2%	16.1	5.22%	11.6	21.00%	3.1	68.2	6.33%	5.9	93.3	75.9
Year 4	154.4	7.2%	11.1	5.22%	8.1	21.00%	2.1	74.0	6.33%	5.9	93.2	69.8
Year 5	80.4	7.2%	5.8	5.22%	4.2	21.00%	1.1	80.4	6.33%	5.9	93.2	64.3
			$ 78.4		$ 56.7		$ 15.1	$ 343.2		$ 29.5	**$ 466.1**	**$ 381.8**

Option 4 - Securitization using a levelized payment over 5 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 5 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 351.5	2.67%	$ 9.4	0.00%	$ -	0.00%	$ -	$ 66.7	6.33%	5.1	$ 81.2	$ 77.9
Year 2	284.8	2.67%	7.6	0.00%	-	0.00%	-	68.5	6.33%	5.1	81.2	71.8
Year 3	216.3	2.67%	5.8	0.00%	-	0.00%	-	70.2	6.33%	5.1	81.1	66.0
Year 4	146.1	2.67%	3.9	0.00%	-	0.00%	-	72.1	6.33%	5.1	81.1	60.8
Year 5	74.0	2.67%	2.0	0.00%	-	0.00%	-	74.0	6.33%	5.1	81.1	55.9
			$ 28.6		$ -		$ -	$ 351.5		$ 25.7	**$ 405.8**	**$ 332.4**

Option 5 - Securitization using a levelized payment over 7 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 7 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 351.5	2.75%	$ 9.7	0.00%	$ -	0.00%	$ -	$ 46.3	6.33%	$ 3.8	$ 59.7	$ 57.3
Year 2	305.2	2.75%	8.4	0.00%	-	0.00%	-	47.5	6.33%	3.8	59.7	52.7
Year 3	257.7	2.75%	7.1	0.00%	-	0.00%	-	48.8	6.33%	3.8	59.7	48.6
Year 4	208.8	2.75%	5.7	0.00%	-	0.00%	-	50.2	6.33%	3.8	59.7	44.7
Year 5	158.7	2.75%	4.4	0.00%	-	0.00%	-	51.5	6.33%	3.8	59.6	41.1
Year 6	107.2	2.75%	2.9	0.00%	-	0.00%	-	52.9	6.33%	3.8	59.6	37.9
Year 7	54.3	2.75%	1.5	0.00%	-	0.00%	-	54.3	6.33%	3.8	59.5	34.8
			$ 39.7		$ -		$ -	$ 351.5		$ 26.4	$ 417.6	$ 317.2

Option 6 - Securitization using a levelized payment over 10 years

Year	Rate Base (a)	WACC (b)	Return (c) (a) * (b)	Weighted Cost of Equity (d)	Return on equity (e) (a) * (d)	Income Tax Factor (f)	Federal Income Taxes (g) (e) * [(f)/(1-(f))]	Annual Amortization (h) (a) / 10 years	Franchise and Sales Tax % (i)	Franchise and Gross Utility Tax (j) [(c)+(g)+(h)]*[(i)/(1-(i))]	Revenue Requirements (k) (c)+(g)+(h)+(j)	Present Value (l) Present Value of (k) @ 8.60%
Year 1	$ 351.5	2.96%	$ 10.4	0.00%	$ -	0.00%	$ -	$ 30.7	6.33%	$ 2.8	$ 43.9	$ 42.1
Year 2	320.8	2.96%	9.5	0.00%	-	0.00%	-	31.6	6.33%	2.8	43.9	38.8
Year 3	289.2	2.96%	8.6	0.00%	-	0.00%	-	32.6	6.33%	2.8	43.9	35.7
Year 4	256.6	2.96%	7.6	0.00%	-	0.00%	-	33.5	6.33%	2.8	43.9	32.9
Year 5	223.1	2.96%	6.6	0.00%	-	0.00%	-	34.5	6.33%	2.8	43.9	30.3
Year 6	188.6	2.96%	5.6	0.00%	-	0.00%	-	35.6	6.33%	2.8	44.0	27.9
Year 7	153.0	2.96%	4.5	0.00%	-	0.00%	-	36.6	6.33%	2.8	43.9	25.7
Year 8	116.4	2.96%	3.4	0.00%	-	0.00%	-	37.7	6.33%	2.8	43.9	23.7
Year 9	78.7	2.96%	2.3	0.00%	-	0.00%	-	38.8	6.33%	2.8	43.9	21.8
Year 10	39.9	2.96%	1.2	0.00%	-	0.00%	-	39.9	6.33%	2.8	43.9	20.0
			$ 59.7		$ -		$ -	$ 351.5		$ 27.8	$ 439.0	$ 298.8

Kansas Gas Service
Exhibit MWS-6
Analysis of Savings from the use of Securitization (Low Analysis)
Comparison of Traditional Rate Making to Securitization

$s in millions

Option 7 - Securitization using a levelized payment over 12 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 12 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 351.5	3.05%	$ 10.7	0.00%	$ -	0.00%	$ -	$ 24.7	6.33%	$ 2.4	$ 37.8	$ 36.3
Year 2	326.8	3.05%	10.0	0.00%	-	0.00%	-	25.4	6.33%	2.4	37.8	33.4
Year 3	301.4	3.05%	9.2	0.00%	-	0.00%	-	26.2	6.33%	2.4	37.8	30.7
Year 4	275.2	3.05%	8.4	0.00%	-	0.00%	-	27.0	6.33%	2.4	37.8	28.3
Year 5	248.2	3.05%	7.6	0.00%	-	0.00%	-	27.8	6.33%	2.4	37.8	26.0
Year 6	220.4	3.05%	6.7	0.00%	-	0.00%	-	28.7	6.33%	2.4	37.8	24.0
Year 7	191.7	3.05%	5.8	0.00%	-	0.00%	-	29.6	6.33%	2.4	37.8	22.1
Year 8	162.1	3.05%	4.9	0.00%	-	0.00%	-	30.5	6.33%	2.4	37.8	20.4
Year 9	131.6	3.05%	4.0	0.00%	-	0.00%	-	31.4	6.33%	2.4	37.8	18.7
Year 10	100.2	3.05%	3.1	0.00%	-	0.00%	-	32.4	6.33%	2.4	37.8	17.3
Year 11	67.8	3.05%	2.1	0.00%	-	0.00%	-	33.3	6.33%	2.4	37.8	17.2
Year 12	34.5	3.05%	1.1	0.00%	-	0.00%	-	34.5	6.33%	2.4	38.0	17.3
			$ 73.5		$ -		$ -	$ 351.5		$ 28.7	$ 453.7	$ 291.8

Option 8 - Securitization using a levelized payment over 15 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 15 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 351.5	3.19%	$ 11.2	0.00%	$ -	0.00%	$ -	$ 18.7	6.33%	$ 2.0	$ 31.9	$ 30.6
Year 2	332.8	3.19%	10.6	0.00%	-	0.00%	-	19.3	6.33%	2.0	31.9	28.2
Year 3	313.5	3.19%	10.0	0.00%	-	0.00%	-	19.9	6.33%	2.0	31.9	26.0
Year 4	293.6	3.19%	9.4	0.00%	-	0.00%	-	20.5	6.33%	2.0	31.9	23.9
Year 5	273.1	3.19%	8.7	0.00%	-	0.00%	-	21.2	6.33%	2.0	31.9	22.0
Year 6	251.9	3.19%	8.0	0.00%	-	0.00%	-	21.9	6.33%	2.0	31.9	20.3
Year 7	230.0	3.19%	7.3	0.00%	-	0.00%	-	22.6	6.33%	2.0	31.9	18.7
Year 8	207.5	3.19%	6.6	0.00%	-	0.00%	-	23.3	6.33%	2.0	31.9	17.2
Year 9	184.2	3.19%	5.9	0.00%	-	0.00%	-	23.9	6.33%	2.0	31.8	15.8
Year 10	160.3	3.19%	5.1	0.00%	-	0.00%	-	24.7	6.33%	2.0	31.8	14.5
Year 11	135.6	3.19%	4.3	0.00%	-	0.00%	-	25.5	6.33%	2.0	31.8	14.5
Year 12	110.2	3.19%	3.5	0.00%	-	0.00%	-	26.3	6.33%	2.0	31.8	14.5
Year 13	83.9	3.19%	2.7	0.00%	-	0.00%	-	27.1	6.33%	2.0	31.8	14.5
Year 14	56.8	3.19%	1.8	0.00%	-	0.00%	-	28.0	6.33%	2.0	31.8	14.5
Year 15	28.9	3.19%	0.9	0.00%	-	0.00%	-	28.9	6.33%	2.0	31.8	14.5
			$ 96.1		$ -		$ -	$ 351.5		$ 30.2	$ 477.9	$ 289.7

Option 9 - Securitization using a levelized payment over 20 years

Year	Rate Base	WACC	Return	Weighted Cost of Equity	Return on equity	Income Tax Factor	Federal Income Taxes	Annual Amortization	Franchise and Sales Tax %	Franchise and Gross Utility Tax	Revenue Requirements	Present Value
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
			(a) * (b)		(a) * (d)		(e) * [(f)/(1-(f))]	(a) / 20 years		[(c)+(g)+(h)]*[(i)/(1-(i))]	(c)+(g)+(h)+(j)	Present Value of (k) @ 8.60%
Year 1	$ 351.5	3.39%	$ 11.9	0.00%	$ -	0.00%	$ -	$ 12.6	6.33%	$ 1.7	$ 26.2	$ 25.1
Year 2	338.9	3.39%	11.5	0.00%	-	0.00%	-	13.1	6.33%	1.7	26.2	23.2
Year 3	325.8	3.39%	11.0	0.00%	-	0.00%	-	13.5	6.33%	1.7	26.2	21.3
Year 4	312.3	3.39%	10.6	0.00%	-	0.00%	-	14.0	6.33%	1.7	26.2	19.7
Year 5	298.3	3.39%	10.1	0.00%	-	0.00%	-	14.4	6.33%	1.7	26.2	18.0
Year 6	283.9	3.39%	9.6	0.00%	-	0.00%	-	14.9	6.33%	1.7	26.2	16.6
Year 7	269.0	3.39%	9.1	0.00%	-	0.00%	-	15.4	6.33%	1.7	26.2	15.3
Year 8	253.6	3.39%	8.6	0.00%	-	0.00%	-	15.9	6.33%	1.7	26.2	14.1
Year 9	237.7	3.39%	8.1	0.00%	-	0.00%	-	16.5	6.33%	1.7	26.2	13.0
Year 10	221.2	3.39%	7.5	0.00%	-	0.00%	-	17.0	6.33%	1.7	26.1	11.9
Year 11	204.3	3.39%	6.9	0.00%	-	0.00%	-	17.5	6.33%	1.7	26.1	11.9
Year 12	186.8	3.39%	6.3	0.00%	-	0.00%	-	18.1	6.33%	1.7	26.1	11.9
Year 13	168.7	3.39%	5.7	0.00%	-	0.00%	-	18.7	6.33%	1.7	26.1	11.9
Year 14	150.0	3.39%	5.1	0.00%	-	0.00%	-	19.4	6.33%	1.7	26.1	11.9
Year 15	130.6	3.39%	4.4	0.00%	-	0.00%	-	20.0	6.33%	1.7	26.1	11.9
Year 16	110.6	3.39%	3.7	0.00%	-	0.00%	-	20.7	6.33%	1.7	26.1	11.9
Year 17	89.9	3.39%	3.0	0.00%	-	0.00%	-	21.4	6.33%	1.7	26.1	11.9
Year 18	68.5	3.39%	2.3	0.00%	-	0.00%	-	22.1	6.33%	1.7	26.1	11.9
Year 19	46.4	3.39%	1.6	0.00%	-	0.00%	-	22.9	6.33%	1.7	26.1	11.9
Year 20	23.5	3.39%	0.8	0.00%	-	0.00%	-	23.6	6.33%	1.7	26.1	11.9
			$ 138.0		$ -		$ -	$ 351.5		$ 33.1	$ 522.6	$ 297.3

Kansas Gas Service
Exhibit MWS-6
Analysis of Savings from the use of Securitization (Low Analysis)
Comparison of Traditional Rate Making to Securitization
$s in millions

Cost of Capital

Source of Capital	Capital Structure	Cost	WACC
Common equity	56.12%	9.30%	5.22%
Long term debt	43.88%	4.55%	2.00%
Total Capitalization	100.00%		7.22%
Taxes			1.39%
Total Cost of Capital			8.60%

Based on Justin Grady's testimony in Docket No. 18-KGSC-560-RTS

Cost of Securitized Debt for a 5-Year Deal

One-tranche Structure
5.25 year recovery period

	Class A-1	Total
Target Rating	AAA	AAA
Issue Amount ($mm)	$380.0	$380.0
Class split (%)	100%	100%
Weighted Average Lif	2.94	2.94
Expected Final Maturi	5.25	5.25
Coupon	2.21%	2.21%
Benchmark (UST)	1.666%	1.666%
Spread to Benchmark	0.550%	0.550%
Offer yield	2.216%	2.216%
Annual principal, interest and other expense ($mm)		**$77.7**
Total debt service, incl. servicing and other costs (%)		**2.67%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 7-Year Deal

One-tranche Structure
7.25 year recovery period

	Class A-1	Total
Target Rating	AAA	AAA
Issue Amount ($mm)	$380.0	$380.0
Class split (%)	100%	100%
Weighted Average Lif	3.99	3.99
Expected Final Maturi	7.25	7.25
Coupon	2.34%	2.34%
Benchmark (UST)	1.749%	1.749%
Spread to Benchmark	0.600%	0.600%
Offer yield	2.349%	2.349%
Annual principal, interest and other expense ($mm)		**$57.9**
Total debt service, incl. servicing and other costs (%)		**2.75%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 10-Year Deal

Two-tranche Structure
10.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	3.18	8.27	5.60
Expected Final Maturi	5.75	10.25	10.25
Coupon	2.24%	2.74%	2.58%
Benchmark (UST)	1.691%	1.922%	1.849%
Spread to Benchmark	0.550%	0.820%	0.737%
Offer yield	2.241%	2.742%	2.586%
Annual principal, interest and other expense ($mm)			**$43.0**
Total debt service, incl. servicing and other costs (%)			**2.96%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 12-Year Deal

Two-tranche Structure
12.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	3.82	9.90	6.70
Expected Final Maturi	7.25	12.25	12.25
Coupon	2.33%	2.87%	2.70%
Benchmark (UST)	1.737%	1.930%	1.901%
Spread to Benchmark	0.600%	0.950%	0.808%
Offer yield	2.337%	2.880%	2.709%
Annual principal, interest and other expense ($mm)			**$37.2**
Total debt service, incl. servicing and other costs (%)			**3.05%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 15-Year Deal

Two-tranche Structure
15.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	4.81	12.38	8.40
Expected Final Maturi	9.25	15.25	15.25
Coupon	2.45%	3.06%	2.86%
Benchmark (UST)	1.808%	2.020%	1.923%
Spread to Benchmark	0.650%	1.050%	0.951%
Offer yield	2.458%	3.070%	2.874%
Annual principal, interest and other expense ($mm)			**$31.5**
Total debt service, incl. servicing and other costs (%)			**3.19%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

Cost of Securitized Debt for a 20-Year Deal

Two-tranche Structure
20.25 year recovery period

	Class A-1	Class A-2	Total
Target Rating	AAA	AAA	AAA
Issue Amount ($mm)	$200.0	$180.0	$380.0
Class split (%)	53%	47%	100%
Weighted Average Lif	6.63	16.60	11.35
Expected Final Maturi	12.25	20.25	20.25
Coupon	2.64%	3.32%	3.09%
Benchmark (UST)	1.898%	2.176%	1.981%
Spread to Benchmark	0.750%	1.150%	1.119%
Offer yield	2.648%	3.326%	3.100%
Annual principal, interest and other expense ($mm)			**$26.0**
Total debt service, incl. servicing and other costs (%)			**3.39%**

Note: Assumes servicing and other ongoing costs of 15 bps of initial transaction size. Rates and spreads as of Feb 21, 2022

Structure, spread and rates remain subject to market change

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

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

Mark W. Smith

Mark W. Smith

Subscribed and sworn to before me this 14 day of March 2022.

M. FREEMAN NOTARY #21014828 EXP. 11/12/25 PUBLIC STATE OF OKLAHOMA

M Freeman

NOTARY PUBLIC

My appointment Expires:

11/12/25

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 the Recovery of Qualified Extraordinary Costs and Issuance of a Financing Order.	))))	Docket No. 22-KGSG-___-TAR

DIRECT TESTIMONY

OF

CHARLES N. ATKINS II

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

MARCH 31, 2022

KGS Exhibit CNA-1	Professional Resume of Charles N. Atkins II
KGS Exhibit CNA-2	Internal Revenue Service Revenue Procedure 2005-62
KGS Exhibit CNA-3	A list of investor-owned utility securitization transactions since 1997
KGS Exhibit CNA-4	Fitch Ratings Utility Securitization Criteria
KGS Exhibit CNA-5	Fitch Ratings Hawaii Dept of Business, Economic Development and Tourism GEM Securitization Bonds Series 2014 A
KGS Exhibit CNA-6	Preliminary Structure Amortization Detail

I. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Kansas Gas Service.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to:

1. Provide background information on the use of utility securitization in other jurisdictions. "Utility securitization" is a generic term used to refer to securitizations for a number of different recovery purposes – some of the names used include rate reduction bonds, stranded cost bonds, energy transition bonds, storm recovery bonds, system restoration bonds, and restructuring bonds, among other names. Likewise, I discuss some of the basic framework elements of the Securitized Utility Tariff Bonds proposed to be issued by Kansas Gas Service in connection with the recovery of Kansas Gas Service's Qualified Extraordinary Costs (the "Bonds");
2. Present a proposed preliminary Bond structure and discuss certain structuring considerations; and
3. Discuss several of the key commercial terms of proposed Bonds that Kansas Gas Service expects will be required for a successful issuance of the Bonds, as well as key provisions of the Proposed Financing Order. I also outline how key portions of Kansas' Utility Financing and Securitization Act ("Act") have been met.

Q. WHAT EXHIBITS TO THE FINANCING ORDER APPLICATION DO YOU SPONSOR?

A. I am sponsoring the following exhibits described below and attached to my testimony:

- KGS Exhibit CNA-1: Professional resume of Charles N. Atkins II
- KGS Exhibit CNA-2: Internal Revenue Service Revenue Procedure 2005-62
- KGS Exhibit CNA-3: A list of investor-owned utility securitization transactions since 1997
- KGS Exhibit CNA-4: Fitch Ratings Utility Securitization Criteria
- KGS Exhibit CNA-5: Fitch Presale "State of Hawaii Dept of Business, Economic Development and Tourism GEM Securitization Bonds 2014 Series A
- KGS Exhibit CNA-6: Preliminary Structure Amortization Detail

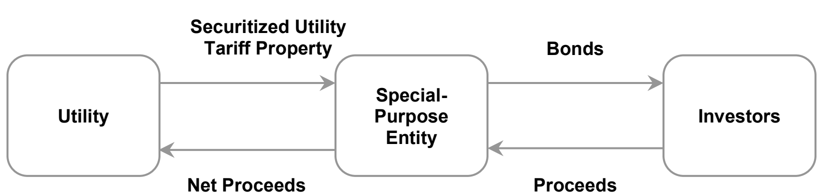
II. SECURITIZATION BACKGROUND

Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION.

A. Securitization is the process in which an owner of a cash flow-generating asset sells the asset for an upfront payment, done in a manner that legally isolates (or de-links) the cash flow-generating asset from the credit quality of the owner/seller. The sale process is intended to protect investors from any changes in credit circumstances, or even the bankruptcy, of the entity that sold the asset. Therefore, the "credit" of a securitization is the ability of the legally isolated asset to produce a set of payments (or cash flows) for investors, who purchase a securitized interest in the asset. Fixed income debt securities collateralized by the legally isolated asset are issued to investors, and those investors rely solely on the legally isolated asset and associated cash flows to pay interest and principal on the issued debt securities. The debt securities are non-recourse to the selling entity, which means that the debt investors only look to the assets pledged to the bonds, and that investors have no claim on the sponsor of the securitization, which in this case would be KGS/ONE Gas.

In the context of utility securitization, the underlying cash flow-generating asset is an intangible property right authorized by state legislation and created pursuant to a financing order. This property right includes the right to impose upon the utility's customers charges required to pay the interest, principal and other ongoing financing costs associated with the debt securities issued in the securitization on a timely basis, as scheduled. This property right is also referred to as the collateral for the transaction. The utility sells the property right to a newly established, special-purpose entity ("SPE") which, as its name implies, functionally does nothing other than purchase the collateral and issue bonds to investors to fund that purchase. The conveyance of the property right from the utility to the SPE is also referred to as a "true sale," as it legally isolates the collateral from the seller of the collateral. A true sale of the collateral supports the "bankruptcy-remoteness" of the SPE and the securitization debt. As mentioned earlier, the bonds are nonrecourse to the sponsor of the transaction. Moreover, the transaction will be structured such that bankruptcy counsel will provide what is called a non-consolidation legal opinion, reasoning that in the event of a bankruptcy of the securitization sponsor, a court would not include the legally isolated securitization structure in the sponsor's bankruptcy proceeding. That means that the interest payments to the bondholders would not be interrupted due to the "automatic stay" of debt payments that typically occurs during a bankruptcy.

To have the funds needed to purchase the collateral, the SPE issues debt securities to investors, collateralized by the property right. In exchange for the issued debt, investors pay an upfront purchase price, which is passed through the SPE back to the utility. Below is a simplified indicative schematic of the transaction closing mechanics described above:



In addition to the essential structure described above, the securitization process also includes another key component: ongoing collections of the cash generated by the collateral. Here, a trustee (a "Trustee" is typically a commercial bank experienced with securitization trust services) and the utility play important roles. The utility will continue to perform its routine billing and collecting functions. In the context of securitization, this function is referred to as servicing and the utility takes on the role as the servicer. In addition to its routine billing and collecting functions as servicer, the utility will also perform certain reporting duties with respect to the amount of money collected. The servicer will perform these functions for the SPE pursuant to a contractual arrangement known as the servicing agreement. The Trustee also plays an important role in the safekeeping of the ongoing collections and distributing them to investors. After receiving its collections, the servicer remits the monies to the SPE trust account held at the Trustee, which maintains those monies until it periodically remits them to investors according to a predetermined set of payment priorities (the "waterfall") and schedule (typically semi-annually in utility securitizations). The Trustee serves as a representative of the bond-holding investors and ensures that their rights are protected in accordance with the terms of the transaction.

Q. WHAT IS THE VOLUME OF UTILITY SECURITIZATIONS THAT HAVE BEEN TRANSACTED TO DATE, AND WHO ARE THE TYPICAL INVESTORS?

A. Utility securitizations are structured based upon well-established legal and rating criteria and have been issued since 1997. These securitizations may have specific requirements for tax purposes. For additional information, please see Exhibit CNA-2. According to public records, including Securities Exchange Commission ("SEC") registration filings, since 1997 to February 24, 2022, there have been 73 securitization transactions by or on behalf of investor-owned utilities and coops. These transactions are well understood by many investors. The types of investors that have participated in utility securitizations include banks, institutional and retail trust funds, money managers, investment advisors, pension funds, insurance companies, securities lenders, and state trust funds. Exhibit CNA-3 provides a list of investor-owned and coop utility securitization transactions.

Q. HAVE OTHER COLLATERAL TYPES BEEN SECURITIZED IN A SIMILAR MANNER?

A. Yes, the market for securitized products or asset-backed securities ("ABS") is very large. Examples of other collateral types include certain consumer-related cash flows, such as credit card receivables, auto loans, auto leases, and student loans. According to the Asset-Backed Alert Database, during 2021 an estimated $392.5 billion of ABS was issued in the United States, and as of February 18, 2022, issuance for the U.S. ABS market was approximately $54.4 billion. The investors who primarily purchase utility securitizations generally come from both the ABS market and the corporate fixed income debt market.

Q. PLEASE DESCRIBE THE FORMATION OF THE SPE THAT WILL ISSUE THE BONDS.

A. Kansas Gas Service's securitization transaction relating to the proposed recovery of certain approved Qualified Extraordinary Costs (the "Securitization") is generally expected to follow a process similar to the process for utility securitizations described above. ONE Gas, on behalf of Kansas Gas Service, will form the SPE as a Delaware LLC, and a wholly owned subsidiary of ONE Gas. The SPE LLC Agreement will contain provisions designed to ensure that the SPE will be a bankruptcy-remote limited purpose entity. When I refer to "bankruptcy-remote," as I mentioned earlier, I mean that the SPE is being structured so that in the unlikely event of a ONE Gas or KGS bankruptcy, the SPE would not be consolidated with other ONE Gas entities into the bankruptcy estate, and the payment of the securitization debt service would not be "stayed" or stopped during the bankruptcy process. This "bankruptcy-remote" concept is included in the Act in K.S.A. 66-1,241(j)(2), 66-1,244(d) (financing order remains in effect and unabated notwithstanding bankruptcy); K.S.A. 66-1,244(e) (interest of assignee not subject to setoff in bankruptcy); K.S.A. 66-1,244(f) (successor in bankruptcy required to perform all obligations under financing order). Importantly, the SPE is structured to operate independently, requiring that fees paid to third parties providing services to the SPE, including Kansas Gas Service as Servicer and Administrator, are set on an arm's-length basis. These provisions supporting the bankruptcy-remote nature of the SPE are critical to achieving the desired "AAA" ratings for the Bonds.

Q. WHAT MAKES UP THE "SECURITIZED UTILITY TARIFF PROPERTY" THAT THE COMPANY SELLS TO THE SPE?

A. The Securitized Utility Tariff Property that is created pursuant to the Financing Order and sold to the SPE is the right to bill and collect a certain nonbypassable charge, the Securitized Utility Tariff Charge ("Securitized Charge"), directly from all retail sales customers within the Company's service territory receiving natural gas delivery service, applying the applicable customer allocations, in amounts necessary to pay principal and interest on the Bonds, as well as other amounts, timely and in full. Included in this property right is the requirement, over the full life of the transaction, to adjust the amount of the Securitized Charges owed by the

Company's retail sales natural gas customers, based principally upon variations in the number of the Company's customers, to ensure that the amounts collected are sufficient to pay all amounts owed with respect to the Bonds, on a timely basis as scheduled. This process is referred to as the "true-up" adjustment mechanism. Pursuant to the Act, and as defined in K.S.A. 66-1,240(b)(2) the "Adjustment Mechanism" is "utilized to make necessary corrections to adjust for over-collection or under-collection of such Securitized Charge or otherwise to ensure the timely and complete payment of the securitized utility tariff bonds and all other financing costs and other required amounts and charges payable in connection with the Securitized Utility Tariff Bonds."

Q. PLEASE FURTHER DESCRIBE THE SALE OF THE SECURITIZED UTILITY TARIFF PROPERTY BY KGS TO THE SPE.

A. Pursuant to the Sales Agreement, in consideration for the payment by the SPE of the purchase price for the Securitized Utility Tariff Property (the "Securitized Property"), the Company will sell, assign, transfer and convey all right, title and interest of the Company in, to and under the Securitized Property to the SPE.. The Sales Agreement will provide that such sale, transfer, assignment and conveyance is expressly stated to be an absolute transfer and true sale. Pursuant to K.S.A. 66-1,246(a), if the sale agreement expressly so states, any sale, assignment, or transfer of Securitized Property to a financing entity assignee that is wholly owned, directly or indirectly, by the utility shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title and interest in, to and under the Securitized Property. As I mentioned previously, this "true sale" treatment is an essential component of legally isolating the Securitized Property collateral from the bankruptcy risk of ONE Gas or Kansas Gas Service and achieving “AAA” ratings for the Bonds.

Q. PLEASE DESCRIBE THE SECURITIZED PROPERTY AND SECURITIZED CHARGES SUPPORTING THE BONDS.

A. The Securitized Property is defined in K.S.A. 66-1,240(b)(22) as the rights and interests of a qualifying utility such as Kansas Gas Service, or an assignee (*i.e.* the SPE) pursuant to the Financing Order that acquires such rights and interests of Kansas Gas Service, including the right to impose, charge, collect and receive Securitized Charges in an amount necessary to provide for full payment and recovery of all Qualified Extraordinary Costs identified in the Financing Order, including all revenues or other proceeds arising from those rights and interests. As set forth in K.S.A. 66-1,240(b)(20), the Securitized Charges are to be the nonbypassable charges paid by all retail sales Kansas Gas Service customers to recover the Qualified Extraordinary Costs (“Qualified Costs”), which include upfront and ongoing Financing Costs.

The Securitized Charges will be designed to provide for amounts sufficient to pay the principal of and interest on the Bonds as scheduled and in full, as well as other ongoing Financing Costs associated with the Bonds. Included in the Securitized Property is the true-up Adjustment Mechanism, which is a requirement to adjust the amount of the Securitized Charges owed by Kansas Gas Service’s customers to ensure the amounts collected are sufficient to pay all amounts owed with respect to the Bonds as scheduled and in full, including ongoing Financing Costs. The process for implementing the true-up Adjustment Mechanism is described in the testimony of Kansas Gas Service witness Ms. Buchanan.

Q. WOULD YOU EXPLAIN WHY PER CAPITA CUSTOMER CHARGES ARE PREFERRED OVER VOLUMETRIC-BASED CUSTOMER CHARGES?

A. There are several reasons why I strongly recommend that the Commission approve per capita, or per customer based Securitized Charges rather than volumetric charges. First, volumetric Charges are expected to have much more seasonal and weather-related variations up and down compared to per capita Charges. Charges imposed on a per capita basis are expected to be much more stable over time, compared volumetric customer consumption-based Charges. Structuring the Securitized Charges and the transaction to facilitate more stable Charges is expected to benefit KGS customers.

Second, rating agencies typically require rigorous AAA rating equivalent cash flow stress case assumptions, which often include assuming that the Company forecasts of consumption or customer counts going forward are multiples of the worst historical forecast variance—whether actual performance is better or worse than forecasted. This stress assumption over time, can result in a significant haircut of stress case revenues available to meet debt service and ongoing financing costs. Forecasts of customer count are generally expected to be less inaccurate than consumption forecasts, thus this stress is expected to be less severe with a customer count approach. (See KGS Exhibit CNA-4, the Fitch utility securitization criteria, and KGS Exhibit CNA-5, the Fitch presale report for the State of Hawaii utility securitization bonds based upon a per capita customer charge.)

Third, prior to this testimony, there has only been one natural gas utility securitization rated by a major rating agency, dating several decades ago. While there are other natural gas securitizations upcoming in Oklahoma and Texas, the rating agencies have not published reports describing their stress assumptions. The full scope of potential new natural gas-related stress assumptions is unknown at this time, so I strongly recommend that the transaction benefit from a more stable and more predictable per capita Charge approach, given what other more severe assumptions may be required.

Q. HOW ARE BONDS DIFFERENT FROM CORPORATE BONDS?

A. The Bonds will be structured to amortize with scheduled principal payments through specific points in time prior to the rated legal final maturity date of the Bonds. These points in time are referred to as the expected or scheduled maturities for each of the multiple tranches of bonds issued in the transaction. To be sure, I will describe the "tranching" of the Bonds below. Amortizing, or sinking-fund, structures are distinct from a traditional utility corporate bond, which generally have only a single "bullet" principal payment at the bond maturity date. Another difference is the Bonds will be structured with a time gap between each tranche's scheduled maturity and the rated legal maturity of that tranche. This time gap, sometimes called a "maturity cushion," provides extra time to pay the outstanding principal amount of the tranche in full in the event that unforeseen circumstances such as significant declines from the forecasted number of customers, cause a material decrease in Securitized Charge collections.

Q. ARE THERE "OTHER AMOUNTS" BEYOND DEBT SERVICE REQUIRED TO BE COLLECTED IN CONNECTION WITH THE BONDS?

A. There will be other amounts in addition to the Bond principal and interest that will be payable on an ongoing basis over the life of the transaction. These costs, which are required ongoing financing costs, include, but are not limited to, servicing fees, trustee fees, rating agency surveillance fees, legal fees, administrative fees, audit fees, other operating expenses, and credit enhancement expenses (if any). Generally, these amounts are SPE expenses that are required to keep the transaction working as designed, without reliance on Kansas Gas Service or any other source of funds. It is essential to the SPE's status as a bankruptcy-remote entity for the transaction structure to provide for the full payment of ongoing financing costs. These anticipated fees and expenses are estimated in the testimony of KGS Witness Smith and included as KGS Exhibit MWS-2.

Q. IN YOUR EXPERIENCE, ARE THE COSTS ESTIMATED BY KANSAS GAS SERVICE WITHIN THE RANGE OF COSTS YOU HAVE PREVIOUSLY SEEN FOR SIMILAR EXPENSES?

A. Yes, I have provided input on and reviewed the preliminary expense estimates provided by KGS Witness Smith, as well as the supporting examples provided from previous transactions. While Kansas Gas Service's proposed securitization is not expected to occur until February 2023, and costs may change, these estimated costs are within the ranges found in other utility securitization transactions.

Q. IN ADDITION TO THE SECURITIZED PROPERTY, ARE THERE ANY OTHER COMPONENTS OF THE COLLATERAL FOR THIS TRANSACTION?

A. Yes, the collateral for the transaction includes other components in addition to the Securitized Property. However, that property right is the principal asset pledged as collateral. Pursuant to the indenture by and between the SPE, as bond issuer, and the Trustee, as indenture trustee and securities intermediary (the "Indenture"), the other collateral includes a collection account, which is established by the SPE as a trust account to be held by the Trustee to ensure the scheduled payment of principal, interest and other costs associated with the Bonds are paid in full and on a timely basis. The collection account, in turn, is comprised of the three subaccounts:

- the general subaccount;
- the capital subaccount;
- and the excess funds subaccount.

The collateral also consists of the SPE's rights under certain agreements it enters into as part of the transaction, including the Sales Agreement and the Servicing Agreement.

Q. PLEASE DESCRIBE THE SUBACCOUNTS OF THE COLLECTION ACCOUNT REFERRED TO ABOVE.

A. The general subaccount is the subaccount in which the Trustee deposits Securitized Charge remittances it receives from the Servicer. Monies in this subaccount will be applied by the Trustee on a periodic basis to make payments according to a prescribed order (or "waterfall"), which generally includes the payment of SPE expenses required to maintain the operations of the transaction, then interest on the Bonds, and then principal on the Bonds.

The capital subaccount represents the equity capital of the SPE and is funded by an amount contributed by Kansas Gas Service at the time of the bond issuance that is equal to 0.50% of the initial Securitized Bond balance. If that subaccount is drawn upon, it is replenished from Securitized Charge collections through the Adjustment Mechanism and any available excess Securitized Charge collections. The Company's proposed equity investment of 0.50% has been derived from guidance from the Internal Revenue Service through its Revenue Procedure 2005-62 ("Revenue Procedure"). The testimony of KGS Witness Smith addresses the Company's return on this capital contribution at a rate equivalent to the KGS approved regulatory weighted cost of capital, consistent with K.S.A. 66-1,241(e)(14). The I.R.S. Revenue Procedure sets forth the way an investor-owned utility may treat, for federal income tax purposes, the issuance of a financing order by a state regulatory agency and the securitization of the rights created by the financing order. Having an equity investment in the SPE of at least 0.50% is within the safe harbor provided in the Revenue Procedure and helps to ensure that the Company will not recognize in its taxable income the cash proceeds received from the issuance of the Bonds. Rather, the Bonds will be considered borrowings of the

Company for federal income tax purposes. I.R.S. Revenue Procedure 2005-62 is included in my testimony as Kansas Gas Service Exhibit CNA-2**.**

The excess funds subaccount is where any monies on deposit in the general account that are not required to meet the scheduled interest and principal obligations of the Bonds will be deposited. The initial balance is zero, and the target ongoing balance is also zero. To the extent there are funds on deposit in this subaccount, those amounts will be considered in the next available true-up process under the Adjustment Mechanism and the subaccount value will again be generally targeted to be zero. Stated differently, to the extent Securitized Charge collections are higher than expected in any given true-up Adjustment Mechanism calculation period, those amounts do not pay down the principal balance of the Bonds beyond the scheduled principal payment for that period. Rather, the amounts on deposit in the general subaccount above and beyond the scheduled obligations will be moved to the excess funds subaccount. Those amounts will then reduce the amount of Securitized Charge collections needed in the subsequent true-up Adjustment Mechanism calculation period.

Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING IN THE VARIOUS SUBACCOUNTS AT THE FINAL MATURITY OF THE TRANSACTION.

A. Funds remaining in the general subaccount and the excess funds subaccount will be returned to the SPE upon final payment in full of the Bonds and all other Financing Costs, and equivalent amounts will be credited to customers in the form of a credit to their natural gas bills. Monies remaining in the Kansas Gas Service-funded capital subaccount along with the authorized return, will be returned to the Company through the SPE without any equivalent credit to customers' bills, since the capital subaccount was funded at issuance with the Company's own funds.

III. DESCRIPTION OF PROPOSED TRANSACTION

A. Transaction Structure

Q. PLEASE DESCRIBE THE PRELIMINARY STRUCTURE OF THE COMPANY'S PROPOSED BONDS.

A. The preliminary structure for the estimated $380 million Bond transaction proposed by KGS is presented in the following table, KGS Table CNA-1. The table shows on a preliminary, indicative basis, two tranches of bonds, which will amortize in a sequential manner, along with the indicative credit spreads to benchmarks and the associated interest coupons, scheduled maturities and rated legal maturities. I recommend that the initial debt service payment be scheduled for approximately nine months after the closing of the transaction, with debt service payments thereafter occurring on a semiannual basis. Given the fact that Securitized Charges may not become effective on the transaction closing day, and also considering the expected billing cycles and other lags in collections, it will take some time for the full expected cash flow from Securitized Charges to be realized. The nine-month initial period allows more time for the full amount of expected Securitized Charge revenues to become available, and also provides for a mandatory true-up adjustment prior to the first debt service payment, to mitigate the transaction revenue impact of any unexpected changes in the KGS customer base.

KGS Table CNA-1

Target Ratings AAA	Class A-1	Class A-2				Total
Issue Amount ($mm)	$200.0	$180.0				$380.0
Class split (%)	53%	47%				100%
Weighted Average Life (years)	3.18	8.27				5.60
Scheduled Final Maturity (years)	5.75	10.25				10.25
Coupon	2.24%	2.74%				2.58%
Benchmark (UST)	1.691%	1.922%				1.849%
Spread to Benchmark	0.550%	0.820%				0.737%
Offer yield	2.241%	2.742%				2.586%
Annual principal, interest and other expenses ($mm)—Revenue Requirement						$43.0
Total debt service, including servicing and other costs (%)						2.96%

Notes:

(1) Assumes servicing and other ongoing financing costs of 15 basis points annually. Structure is preliminary and subject to change based on market conditions and rating agency requirements near or at the time of pricing.

(2) Structure is based in part upon information supplied by the Company which is believed to be reliable but has not been verified. Potential application of franchise fees and gross receipts taxes is not reflected in the ongoing cost amounts. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

(3) Assumes "AAAsf"-equivalent ratings.

(4) Benchmark rates as of February 21, 2022.

(5) Weighted average benchmark rate, spread, and coupon weighted based on tranche balances and WALs.

Please note that these terms are preliminary and estimated based on current market conditions. The final terms and conditions of the Bonds will not be known until they have been priced in the marketplace. Investor demand at the time of pricing will determine market-clearing interest rates and the final structure offered to investors. Therefore, this preliminary structure and pricing information is illustrative and subject to change, and the actual structure and pricing will differ, and may differ materially from this preliminary structure.

As you will note, the preliminary structure of the Bonds includes two (2) tranches. The structure shown is designed, considering market interest rates as of February 21, 2022, to provide an efficient distribution of securities across the maturity spectrum and thus the lowest weighted average cost of funds to the Issuer given the targeted approximate 10.25-year scheduled final maturity. The level of Securitized Charges paid by the Company's customers is directly affected by interest rates and the principal amortization structure of the Bonds. Because of the expected size of the transaction, two tranches (*i.e.*, individual bond tranches with different scheduled maturities and average lives) can be structured to take advantage of discrete pockets of investor demand across the entire term of the transaction and to maintain large enough tranche sizes to ensure secondary market liquidity for the Bonds, which is a consideration for investors during the bond marketing and pricing process. Liquidity in this context refers to the ability of a bondholder to sell the bond in the secondary market without having to significantly discount its price.

Average life is a measure of the average amount of time it takes to repay in full the principal balance of a bond tranche. Regularly scheduled principal amortization throughout the life of the transaction, as opposed to a single bullet maturity, results in a shorter average life for the financing and lower interest costs, resulting in lower Securitized Charges for customers. Investors have nearly universally seen and accepted semiannual or quarterly amortization in these transactions. I have advised the Company that the proposed transaction should have a relatively level annual debt service and associated revenue requirement, such that as the Company's customer population may increase, all other things being equal, the Securitized Charges may be adjusted downward over the life of the transaction. Rating agency

"AAA" or equivalent stress assumptions would tend to more severely impact transactions that significantly back-load debt service.

As previously noted, rating agency requirements and investor demand at the time of pricing will determine market-clearing interest rates and the final tranching offered to investors. Therefore, the structure and pricing information presented here are preliminary and subject to change, and the actual structure and pricing can be expected to differ, perhaps materially, from the information provided in KGS Table CNA-1 and KGS Exhibit CNA-6.

Q. PLEASE DESCRIBE THE MECHANICS IN TERMS OF HOW THE BONDS ARE PRICED.

A. The starting point for how each bond tranche is priced is the corresponding benchmark rate. In the preliminary structure above, U.S. Treasury benchmarks are listed. These benchmark rates are matched with the weighted average life of each tranche. Average life is a measure of the average amount of time it is expected to take to repay the principal balance of a bond tranche in full. The Treasury benchmark reflects the "risk-free" yield investors generally associate with securities issued by the United States Treasury. Some investors, particularly ABS investors, may evaluate the transaction from the perspective of swap benchmarks. Swap benchmarks reflect the yield demanded by investors for non-Treasury securities of similar terms, without regard to any further credit spread. Yields demanded by investors in the interest rate swap market for different terms are the basis for the swap benchmarks for similar terms. Investors in the ABS market generally use swap rates as benchmarks, whereas investors in the corporate bond market typically use Treasury rates as benchmarks. An effective marketing strategy for the Company transaction should enable investors to evaluate the transaction from the perspective of either or both benchmarks.

The next consideration is the credit spread, which is generally the amount of yield above the given benchmark that is required by the marketplace to invest in the given bond tranche. To state the obvious, issuers would like this credit spread to be as small, or tight, as possible to the underlying benchmark (thereby lowering the coupon) and investors would like it to be higher, or wider, versus the underlying benchmark, all else being equal. While corporate investors assessing the attractiveness of a utility securitization may readily convert swap benchmarks to Treasury benchmarks, and thereby adjust proposed credit spreads accordingly, for investor convenience, underwriters sometimes give proposed price guidance to investors reflecting both benchmarks. The pricing credit spread is ultimately determined by market-clearing rates at the conclusion of the marketing process.

Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL MATURITY AND LEGAL FINAL MATURITY?

A. I briefly addressed this topic above in the context of the basic discussion of securitization and will address it more fully here. The scheduled final maturity of the Bonds represents the date at which final payment is expected to be made, but no legal obligation exists to retire the tranche in full by that date. The rated legal final maturity is the date by which the Bond principal must be paid or a default will be declared. The proposed preliminary structure for this transaction utilizes a legal maturity that is approximately 5 years longer than the scheduled maturity for each bond tranche, known as a "maturity cushion." The actual maturity cushion will be determined by the final "AAA" stress scenarios required by the rating agencies during the rating process for the Bonds and may be shorter or longer. The difference between the scheduled final maturity and legal final maturity provides additional credit protection by allowing shortfalls in principal payments to be recovered over this additional period due to any unforeseen circumstance. This gap between the two maturity dates is a benefit to the Issuer (i.e., the SPE formed by ONE Gas) and contributes to the strong credit quality of the transaction, helping lower the cost of funds on the Bonds and therefore benefiting customers. Moreover, many investors in utility securitization are familiar with this concept, which occurs in most ABS transactions. The ratings on the Bonds are derived in part based on the assumption that the outstanding principal amount of the tranche will be paid in full by its legal final maturity date, and investors generally price the Bonds assuming the Bonds make the final scheduled principal payment in full at the earlier scheduled final maturity date. It is very important that the final Financing Order provide for flexibility regarding the number of years between the scheduled final maturity of the last bond tranche and the legal final maturity of that last tranche.

Q. SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC, SEC-REGISTERED TRANSACTION?

A. I recommend that the Bonds be marketed via an SEC-registered, public offering. In general, SEC-registered transactions are considered to be more liquid than Rule

144A or other private placement transactions. Publicly offered transactions are not limited to "qualified institutional investors" or "accredited investors" upon initial issuance or resale, as privately placed transactions are, and this broader potential investor universe will potentially be more attractive to investors and more likely to obtain lower interest rate coupons on any pricing day.

Q. WILL THE BONDS PAY FIXED OR FLOATING INTEREST RATES?

A. I recommend that the Bonds be issued as fixed-rate securities. First, most utility securitizations have been issued as fixed rate bonds to date. Second, fixed interest rates are necessary to maintain predictable revenue requirements over time. Maintaining predictable revenue requirements facilitates the ongoing management of the Adjustment Mechanism (or "true-up process"). If floating rate bonds were issued, interest rate swaps would be required to create a fixed rate payment obligation. The use of interest rate swaps would create added risks for customers. For example, a swap incorporated as a part of the securitization structure would require an additional counterparty, so there is a risk of a ratings downgrade of or a default by the counterparty providing the swap.

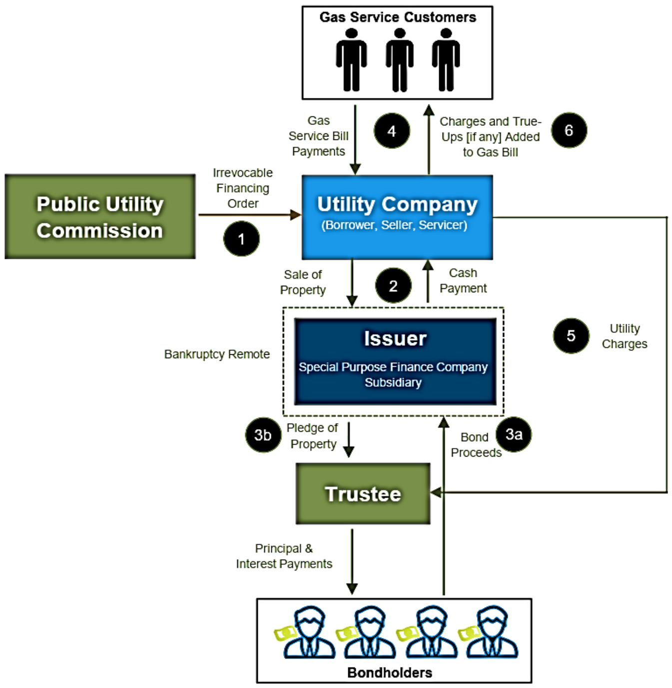
Q. ARE THERE OTHER IMPORTANT CONSIDERATIONS REGARDING THE PRELIMINARY STRUCTURE OF THE BONDS?

A. Yes, I reiterate that it will be beneficial for the Bonds to be structured to have substantially level annual debt service. This is important because it will facilitate a modest decline in the aggregate Securitized Charges over the life of the Bonds, assuming actual growth in number of customers. This structure can also facilitate the Servicer's planning for the ongoing true-up Adjustment Mechanism process

B. Securitized Charge Collection

Q. PLEASE DESCRIBE THE ONGOING BILLING, COLLECTING, AND REMITTING OF THE SECURITIZED CHARGES OVER THE LIFE OF THE TRANSACTION.

A. The Company, as Servicer, will be responsible for billing and collecting Securitized Charges from customers. The procedures for remitting Securitized Charges to the Trustee will be established through a Servicing Agreement. Securitized Charges will be remitted by the Company to the Trustee each business day (based on estimated amounts collected), with cash held no more than two business days prior to remittance. The Trustee will then hold the amounts remitted to it by the Company until the next payment date. These payment dates will generally occur twice a year, as is customary in utility securitizations. An illustrative diagram for utility securitization bonds is included on the following page.



Transaction Process / Mechanics

1. After a request from a utility company, public utility commission (utility regulator) issues a financing order pursuant to state statute, that creates Property in the hands of sponsoring utility
2. Via a true sale, sponsoring utility transfers Property to bankruptcy-remote special purpose finance company (the "Issuer") in exchange for cash payment
3. (a) Bonds issued in exchange to cash payment from bondholders

   (b) Property is pledged to Trustee for benefits of the bondholders
4. Gas utility customers pay charge on gas bills
5. Payments from gas utility customers used to pay P&I on bonds
6. True-up mechanism triggered at least semi-annually and, in some cases, more frequently, is designed to adjust charge on all gas customers to level necessary (i.e. not subject to caps) to provide for timely payment of P&I on bonds

It is also important to discuss briefly the requirement in the Proposed Financing Order that third party energy providers collect the Securitized Charges under certain circumstances. While I understand that Kansas law does not currently authorize third party energy providers to provide public utility services, it is important that the Financing Order ensure that such third parties, in the event there is any change in utility regulation, bill and collect the Charges in a manner that will not cause any of the then-current credit ratings of the Bonds to be suspended, withdrawn, or downgraded. Likewise, it is important to note the Act's definition of Securitized Utility Tariff Charges, K.S.A. 66-1,240(b)(20) recognizes this concept.

IV. DISCUSSION OF THE EXECUTION PROCESS

A. Rating Agency Process

Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.

A. An important element of preparing for the marketing and pricing of the Bonds is obtaining the highest ratings on the Bonds from the rating agencies. The Company and its lead underwriter will prepare written presentations and may meet with rating agency personnel to discuss the credit framework and credit strengths of the proposed Bonds with each hired rating agency, in compliance with SEC Rule 17g-5. It is important to note that rating agencies are completely independent institutions, and each rating agency has its own method of reviewing a utility securitization and will request certain data and information that will facilitate such a review process. Rating agencies may update or amend their rating criteria at any time. The Company's lead underwriter will work with the Company to draft presentations that contain the required data and information. Additionally, the rating agencies may require a diligence review of the Servicer's billing and collecting processes.

The ratings process also entails a review of the cash flows of the proposed structure. As part of this phase, each rating agency will ask for various cash flow stress scenarios based on its requirements and the details of the particular transaction to ensure that the Bonds will be repaid under extremely stressful cash flow projections.

Important rating elements include:

- Legal and regulatory framework;
- Political and regulatory environment;
- Long-term consumption trends for natural gas;
- Transaction structure;
- Servicing review and capabilities;
- Service area analysis;
- Cash flow stress analysis; and
- Size of the Securitized Charges for the Bonds on an aggregate basis as a percentage of the total average residential energy bill.

Q. IN YOUR PREVIOUS ANSWER, YOU MENTIONED SEC RULE 17G-5. PLEASE EXPLAIN WHAT IT IS AND HOW IT WILL PERTAIN TO THIS EXECUTION PROCESS.

A. In December 2009, the U.S. Securities and Exchange Commission (the "SEC") amended, as part of its mandate under securities reform legislation, its rules regulating ratings on structured finance securities where the issuer, sponsor, or underwriter pays for the ratings on the securities. In short, the amended regulation, which I refer to here as "Rule 17g-5" is intended to provide access to ratings-related information to non-hired rating agencies so that they, if desired, could issue unsolicited ratings. In practice, however, actual unsolicited ratings are very rare.

The rule has been in effect since June 2010. Although SEC Rule 17g-5 only directly applies to a hired rating agency, the rule requires the agency to obtain commitments from the issuer to facilitate this process, effectively passing on the requirements to issuers.

Utility securitizations have been subject to SEC Rule 17g-5 since its implementation, and issuers and their underwriters have managed the process by maintaining most communication via email and/or recorded or transcribed phone communication. In summary, the SEC Rule 17g-5 changes the technical nature of how communication takes place during the ratings process, but it has not changed the fundamental nature of that process.

B. Marketing Process

Q. PLEASE DESCRIBE THE BOND MARKETING PROCESS.

A. The marketing process entails a number of different phases, each uniquely tailored to the asset class, market conditions and the specifics of this contemplated transaction. The underwriter(s) will work with and make recommendations to the Company throughout the process. Key decisions at each step of the process will be made by the Company, in consultation with the lead underwriter(s). Described below are the general steps in a typical marketing process, but the actual process for the Bonds could vary based on the market environment at the time of marketing. Each step below should be conducted consistent with SEC rules and regulations regarding publicly registered securities offerings, including an investor suitability analysis:

1. **Pre-marketing**. Once a preliminary prospectus for the transaction is on file with the SEC, the underwriter(s) will work together to bring the Bond transaction to the attention of investors, to inform them of its structure and term, and to answer directly any questions they may have. This process is generally referred to as pre-marketing. It may include an electronic roadshow, one-on-one conference calls with significant potential investors, and open conference calls, which several investors may join. The purpose of this process is to stimulate broad investor demand for the issue, so that the pricing process will result in the lowest possible interest rates reasonably consistent with market conditions at the time of pricing.

The timing of this process and the specifics of the new issue process are also important factors. Typically, new transactions in this sector are announced to the market on Monday mornings. As one could expect, the new issue calendar may be busy at that time, so in order to get the attention of investors as they may be considering several competing new issues, certain transactions are pre-marketed, starting approximately on a Thursday or Friday. Most transactions that announce on Monday morning will target a pricing by Wednesday or Thursday (as issuers do not want to take the risk of an intervening event over a weekend); thus, a pre-marketing start date on a Thursday or Friday is designed to gain the attention of investors when they may not be busy reviewing other active new issue pricings.

2. **Announcement**. Following pre-marketing, the transaction is officially announced to the market, which is typically done toward the start of the week (again, as mentioned above, the timing of the announcement is to ensure that a transaction prices during the same week in which it is officially announced; otherwise, issuers may be subject to unforeseen risk over a weekend). During this phase of marketing, the Bonds will be offered for sale to investors through the underwriter(s). The underwriter(s), in conjunction with the Issuer, will begin to discuss informally with investors the price(s) at which the Bonds will be offered at initial issuance, stated as a credit spread relative to the benchmark rates for each tranche. In response, investors will provide initial indications of interest, generally specifying how much of the tranche for which they intend to submit an order at a given pricing level. The underwriter(s) will be charged with keeping the master record (known as "the book") in which all indications of interest received by the underwriter(s) from potential investors are recorded. The next phase of the transaction – price guidance – will be based on the aggregated amount of indications of interest received from investors.

3. **Price guidance**. At this stage, the underwriter(s) will send out a notice to investors with price guidance, again typically stated as a range of credit spreads stated against the given benchmark. Thereafter, investors will be invited to place firm indications through the underwriter(s) for the amount and specific tranches of Bonds they are willing to purchase, at certain prices

and bond coupon rates. At a certain point in time, when the book has sufficient interest from investors, the underwriter(s) will stop taking orders (generally referred to as going "subject" to pricing and confirmation). The timing of this step will depend on the specifics of each transaction; however, it will obviously occur only when the book has at least an equal amount of orders for the Bonds as the anticipated aggregate principal amount of each proposed tranche (generally referred to as "fully subscribed"). There is no specific threshold beyond that, and it will depend on market conditions, the speed at which orders came in from investors and the composition of investor types in the book, to name a few factors. The underwriter(s) will exercise professional judgment in making a recommendation to take the book subject to final order confirmations, based on all relevant factors. Conversely, if the tranche is undersubscribed, the underwriter(s) may need to increase the coupon or restructure the tranching to attract sufficient investor orders to sell the entire tranche.

4. **Determining pricing levels**. Having exercised professional judgment and taken the transaction subject to pricing and final confirmation of orders, the underwriter(s) will then work to refine the pricing levels. Based on the strength of the book, in close coordination with the Company, the underwriter(s) may adjust the pricing levels lower (or tighter). This process is generally referred to as testing the pricing levels. It is done to ensure maximum distribution of the Bonds at the lowest bond yields reasonably

consistent with market conditions. If a tranche is oversubscribed, the underwriter(s) may continue to lower the pricing level (thus improving execution for the Issuer), provided that this adjustment does not decrease the aggregate investor interest below the size of the tranche. If a tranche is undersubscribed, the pricing level may be adjusted higher until the tranche is fully subscribed. The underwriter(s) will use professional judgment in close coordination with the Company with respect to the recommendation for the amount of tightening and number of testing attempts.

5. **Launch**. Once the pricing levels have been determined for each tranche in the transaction, and the registration statement for the transaction has been declared effective by the SEC, the transaction will be launched at a specific pricing level. The intention of this stage is to declare to investors at which pricing levels, or credit spreads, the transaction will be issued. This will be the market-clearing pricing level, subject only to movements in the underlying benchmark rates.

6. **Allocations**. At this stage, the market-clearing pricing level has been determined by the marketing process, but the final book – how much each investor will purchase – has yet to be determined. Here, the underwriter(s) will work to recommend a specific amount of Bonds to be sold to each investor. Each allocation depends on a number of factors; *e.g.*, the size of each investor's indication of preliminary orders, when the investor submitted

its indication, its experience in the sector, its flexibility for the pricing process, the investor type, etc. Ultimately, each investor will purchase its final allocations for the transaction.

7. **Pricing**. Once the market-clearing pricing level and the book has been finalized, the transaction can be priced. At this stage, the underwriter(s), in close coordination with the Company, will price the transaction by spotting the underlying benchmark rates and adding the credit spread to determine the coupons for each tranche. Soon after the pricing, the investor orders will be confirmed, and the final prospectus will be provided to investors.

8. **Closing**. At the conclusion of the pricing, the Company, with its underwriter(s) and legal team, will work toward finalizing the transaction documents and close the transaction, typically approximately five days after pricing.

In summary, it is through this marketing and pricing discovery process that the actual investor market-clearing interest rates for the Bonds are determined. It should be noted again that this determination will be specific to the Bonds in question, based on the actual investor orders on the actual day of pricing.

V. DISCUSSION OF THE FINANCING ORDER

Q. ARE THE TERMS OF THE FINANCING ORDER CRITICAL TO ACHIEVING A SUCCESSFUL SECURITIZATION TRANSACTION?

A. Yes. The Financing Order, when taken together with applicable provisions of the Act, establishes in strong and definitive terms the legal right of investors to receive, in the form of Securitized Charges, those amounts necessary to pay the interest and principal on the Bonds and other ongoing expenses in full and on a timely basis. The Proposed Financing Order is submitted as part of the Application and is sponsored by the Company's witnesses.

As mentioned earlier, the Financing Order specifies the mechanisms and structures for payments of bond interest, principal, and ongoing expenses in a manner that minimizes the amount of additional credit enhancements required by the rating agencies to achieve the highest possible ratings. The higher the bond rating, the better for customers as interest costs will be lower. In addition, the Financing Order, when taken together with applicable provisions of the Act, will enable the Company to structure the financing in a manner reasonably consistent with investor preferences and rating agency considerations at the time of pricing, which is also necessary for the financing to achieve the desired results.

Q. WHAT ARE THE KEY ELEMENTS OF THE FINANCING ORDER THAT ARE ESSENTIAL TO ACHIEVING THE DESIRED RESULT FOR THE TRANSACTION?

A. The Act sets out a number of key elements for the Financing Order. Once the Securitized Property is created, one of the most important elements is insulating the transaction from the risk of any potential bankruptcy of the Company, which is accomplished via a legal "true sale" of the Securitized Property to the SPE. The structure utilized with this transaction, along with other securitizations, relies on techniques that allow the rating agencies and investors to conclude that the Issuer of the securitization, the SPE, is highly unlikely to become the subject of a bankruptcy proceeding in the unlikely event of a bankruptcy of the Company. Under the federal bankruptcy code, payments on the debt obligations of an issuer in a bankruptcy proceeding become subject to an automatic stay – *i.e.*, the payments are suspended until the courts decide which creditors of the issuer are to be paid, when they will be paid, and whether they are to be paid in whole or in part. Unless the risk of an automatic stay in the unlikely event of a bankruptcy of the Company is essentially removed from the rating agencies' credit analysis, the financing cannot achieve the highest possible ratings since the Company's secured debt obligations are rated below "AAA."

In addition, the creation of the bankruptcy-remote SPE, which is legally distinct from the Company, is designed to limit the ability of the SPE to be included with the Company in the unlikely event of a Company bankruptcy. Therefore, even if the Company were to declare bankruptcy, the SPE would not become the subject of the Company's bankruptcy proceeding, and the SPE's debt service payments to investors would not be subject to the Company's automatic stay. ONE Gas, as

Servicer, may continue in that role, as long as it continues to perform its duties in accordance with the Servicing Agreement. Thus, in event of a ONE Gas bankruptcy, the stream of Charges to pay the SPE's debt and ongoing financing costs would not be interrupted. The transaction, as structured and reflected in the Proposed Financing Order, is intended to achieve this important element. This legal structure is supported by true sale and non-consolidation legal opinions from experienced legal counsel.

Q. ARE THERE ANY OTHER COMPONENTS OF THE FINANCING ORDER THAT ARE ESSENTIAL TO ESTABLISHING THE LEGAL FOUNDATION FOR THE TRANSACTION?

A. There are several provisions in the Financing Order that ensure the SPE will be deemed to be bankruptcy-remote in addition to the elements mentioned above, including that the SPE will have at least one independent manager whose approval will be required for certain organizational changes or major actions of the SPE, such as a voluntarily filing for bankruptcy by the SPE. The Financing Order will also enable the transfer of the Securitized Property from the Company to the SPE to be a "true sale." As discussed above, a true sale is a sale that a bankruptcy court should not overturn in the case of any Company bankruptcy. The Financing Order will allow the SPE to issue the Bonds, pledging the Securitized Property as security for payment on the Bonds.

Q. DOES THE FINANCING ORDER PROVIDE FOR ANY CREDIT ENHANCEMENT TO THE TRANSACTION?

A. Yes, in several forms. The primary form of credit enhancement is the true-up process established with the Adjustment Mechanism. The Financing Order, together with the Act, ensures that the collection of Securitized Charges arising from the Securitized Property is expected to be sufficient to pay all amounts owed on the Bonds on a timely basis and in full, even in the face of dramatic reductions in natural gas usage by the Company's customers or dramatic increases of delinquencies and losses on payments from the Company customers. The Adjustment Mechanism represents the most fundamental component of credit enhancement to investors and is a cornerstone of utility securitizations. True-ups are to be incorporated so that Securitized Charges may be adjusted on a periodic basis to correct for any over- or under-collection of nonbypassable Securitized Charges for any reason and to ensure that the expected collection of future Securitized Charges is in accordance with the payment terms of the Bonds. I recommend that mandatory true-up Adjustment Mechanism calculation be made on a periodic basis semi-annually, throughout the life of the Bonds in accordance with the objective of achieving the highest credit ratings per rating agency requirements and investor expectations, except that during the last year prior to the scheduled final maturity, the true-up Adjustment Mechanism calculations must be conducted at least quarterly. In addition, I recommend that optional adjustments at any time to correct potential undercollections be authorized. The frequency of true-up adjustments throughout the life of the Bonds will be described in the final issuance advice letter and offering documents for the transaction and will be consistent with the Act and rating agency considerations for achieving the highest credit ratings. It is also important to note that the Adjustment Mechanism provides for cross-collateralization across customer groups. This means that the Securitized Charge methodologies may change over the life of the transaction if necessary, and that revenue declines in one customer group can be made up by Securitized Charge adjustments within that customer group, as well as the other customer groups.

It is critical for rating agency purposes that, insofar as Commission action is required, true-up adjustments under the Adjustment Mechanism are automatic and implemented on an immediate basis subject only to mathematical and clerical error review. True-up adjustments under the Adjustment Mechanism will consider other ongoing financing costs as well as anticipated debt service requirements, updated customer count forecasts, in addition to forecasted projections of customer uncollectibles and delinquencies. Pursuant to the Act, the true-up Adjustment Mechanism shall remain in effect until the Bonds and all associated financing costs have been fully paid and any under-collection is recovered from customers and any over-collection is returned to customers.

The capital subaccount funded by a KGS capital contribution of an amount equal to 0.50% of the initial principal balance of the Bond transaction, will also serve as credit enhancement of the transaction.

Also, it is important that the Financing Order provide for flexibility to include other forms of credit enhancement and other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts) to improve the marketability of the Bonds. None is anticipated but it is important to have such built-in flexibility. In connection with implementing any such other credit enhancement, the Company may enter into one or more "ancillary agreements." Pursuant to K.S.A. 66-1,240(b)(3), an "ancillary agreement" means a bond, insurance policy, letter of credit, reserve account, surety bond, interest rate lock or swap arrangement, hedging agreement, liquidity, or credit support arrangement. Generally, ancillary agreements are designed to promote the credit quality and marketability of the Bond or to mitigate the risk of an increase in interest rates.

Q. COULD YOU PLEASE PROVIDE SOME FURTHER EXPLANATION OF THESE ANCILLARY AGREEMENTS?

A. Certainly. As discussed above, the statutory Adjustment Mechanism to adjust the Securitized Charges and the 0.5% capitalization account will serve as protections to investors against the risk of non-payment of the Bonds. To provide further protection to investors against the risk of non-payment, an additional overcollateralization account, funded from ongoing Charges, or a letter of credit provided by a highly rated financial institution could be drawn upon to pay interest and principal on the Bonds and related ongoing Financing Costs if at any time there was a shortfall in Securitized Charge collections such that sufficient amounts were not available to pay required principal, interest and related ongoing costs. Alternatively, the size of the Bond offering could be increased to fund additional reserve accounts, such as an initial overcollateralization account, to protect against non-payment. There would be an additional cost in implementing any of these credit enhancements. As a result, these credit enhancements would only be appropriate if the cost of the enhancement would be outweighed by a reduction in the interest rate that investors would require on the Bonds or other benefits are demonstrated.

In my prior experience with utility securitization, the statutory true-up mechanism and capitalization account have been sufficient credit enhancement and additional forms of credit enhancement have not been used. However, only one natural gas utility securitization has been rated, and the rating agencies have not published updated stress case assumptions for such transactions as of the time of this testimony. As a result, additional credit enhancements may be necessary. In any case, I believe it is advisable to provide flexibility in case market conditions change, as it would make sense to use one or more of these enhancements if the reduction in interest costs outweighed the cost of the credit enhancement.

Q. PLEASE EXPAND ON YOUR USE OF THE TERM "NONBYPASSABLE."

A. The Act and Proposed Financing Order provide that all retail sales customers, not specifically exempted, in the Company's service territory receiving natural gas delivery service from the Company or a successor must pay Securitized Charges regardless whether or not the distribution system is operated by the Company or a successor. This is another important element of the Proposed Financing Order, both for the rating agency process and for investor considerations.

Q. IN THAT CONTEXT, HOW WOULD THE CHARGE BE AFFECTED IN THE CASE WHERE THE COMPANY IS NO LONGER THE NATURAL GAS UTILITY IN THE SERVICE TERRITORY?

A. The Financing Order creates a binding obligation for the Company, its successors, or assignees to collect the Securitized Charges for a servicing fee and allows that obligation to be performed by a replacement servicer appointed by the Trustee, if the Servicer does not so perform. Thus, the binding obligation to collect and account for Securitized Charges will survive any adverse event to the Servicer. This obligation is binding upon any other entity that provides service in the service territory or any other entity responsible for billing and collecting the Securitized Charges on the Company's behalf.

Q. PLEASE DISCUSS THE IRREVOCABLE NATURE OF THE FINANCING ORDER.

A. After the Company issues the Bonds or transfers the Securitized Property to the SPE, the Act renders the Financing Order irrevocable, and the Securitized Charges are not subject to reduction, alteration or impairment by any further action of the Commission (except for the mathematical and clerical error review of the formulaic adjustment mechanism). Thus, so long as the Bonds are outstanding, rights and benefits arising from the Securitized Property created by the Financing Order may be definitively relied upon by investors and the rating agencies.

Equally important, the Act affirms the pledge of the State not to take or permit any action that would impair the value of the Securitized Property authorized by the Financing Order. Investors generally perceive that one of the greatest risks to them is that there is a change in law that affects the Securitized Property, thereby adversely affecting their rights under the Act and the Financing Order. The

Commission's affirmation in the Financing Order of the State pledge will enhance investor understanding that the risk of an adverse change in law or regulation is remote and will permit counsel to deliver important legal opinions that such adverse changes would not be legally valid.

Q. PLEASE DESCRIBE THE SECTIONS OF THE FINANCING ORDER ENTITLED, "FINDINGS OF FACT," "CONCLUSIONS OF LAW," AND "ORDERING PARAGRAPHS."

A. The Findings of Fact, Conclusions of Law, and the Ordering Paragraphs of the Financing Order constitute the means by which the Commission definitively affirms the conformity of the financing with the applicable provisions of the Act. These provisions of the Proposed Financing Order reflect the level of detail and scope that will be expected by investors and the rating agencies. With these findings and conclusions, counsel will have the basis that they need for the highly technical and specialized legal opinions they must issue in connection with the securitization financing, and upon which the rating agencies will rely in assigning the highest possible ratings for the Bonds. I emphasize that the provisions of the Proposed Financing Order have been drafted with a view toward providing the basis that counsel will need for these essential opinions. With the structure authorized thereby, the stability of the cash flows securing the Bonds will be maximized. The combination of maximized cash flow stability and highest possible ratings will allow the Bonds to be structured and priced so as to meet statutory requirements.

Q. ARE THERE ANY OTHER KEY ELEMENTS OF THE FINANCING ORDER UPON WHICH YOU WISH TO ELABORATE?

A. Yes. In addition, in the Ordering Paragraphs of the Financing Order, the Commission recognizes the need for, and affords the Company the flexibility to establish, the final terms and conditions of the Bonds. This flexibility will allow the Company to achieve the structure and pricing that will meet the statutory requirements, including the lowest cost objective commitment, reasonably consistent with market conditions on the day of pricing, rating agency considerations, and the terms of the Financing Order. The final terms of the transaction will be provided to the Commission via the Issuance Advice Letter process, as discussed more fully in the proposed Financing Order.

VI. DISCUSSION OF THE SERVICING AGREEMENT

Q. PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE SERVICING AGREEMENT.

A. The Servicing Agreement is an agreement among the Company (in its capacity as the Servicer of the Bonds), the Trustee, and the SPE. The agreement sets forth the responsibilities and obligations of the Servicer, including, among other things, billing and collecting of Securitized Charges, responding to customer inquiries, terminating electric service, filing for true-up adjustments and remitting collections to the Trustee for distribution to bondholders. The Servicing Agreement prohibits the initial Servicer's ability to resign as Servicer unless (i) it is unlawful for the initial Servicer to continue in such a capacity, or (ii) the Commission consents and the rating agencies confirm the resignation would not impact the ratings on the Bonds. Its resignation would not be effective until a replacement Servicer has assumed its obligations in order to continue servicing the Bonds without interruption. The Servicer may also be terminated from its responsibilities in certain cases upon a majority vote of bondholders, such as the failure to remit collections within a specified period. Any merger or consolidation of the Servicer with another entity would require the merged entity to assume the Servicer's responsibility under the Servicing Agreement. The terms of the Servicing Agreement are critical to the rating agency analysis of the Bonds and the ability to achieve credit ratings in the highest categories.

As compensation for its role as initial Servicer, the Servicer is entitled to earn a servicing fee payable out of Securitized Charge collections. It is important to the rating agencies and the bankruptcy analysis of the transaction that the Company receives an arm's-length fee as Servicer of Securitized Property, and for its services as Administrator of the SPE. Utility securitizations to date have also required an increase in the servicing fee in the unlikely event the Company is no longer able to perform the servicing role, and a replacement servicer must be brought on board. Rating agencies expect that the Company will be the Servicer but assume that a replacement Servicer may require additional compensation to perform these services, without access to the Company's existing infrastructure and customer relationships.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I believe the Proposed Financing Order submitted with the Application will enable the Company to structure a transaction that can achieve the highest possible ratings and is consistent with investor preferences that will enable the Company to price Bonds at the lowest market-clearing interest costs reasonably consistent with investor demand and market conditions at the time of pricing.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does. Thank you.

KGS EXHIBIT CNA-1

CHARLES N. ATKINS II

Email: charles@atkinscapitalstrategies.com

ATKINS CAPITAL STRATEGIES LLC **2020 - Present**

Chief Executive Officer

Strategic consultant to companies in the utility, power and energy sectors, as well as investment banking and financial sponsor institutions. Focus on utility, contract monetization, whole business and other non-traditional securitizations, as well as corporate and structured credit analysis, and rating agency negotiations. Served PNM and Duke Energy as a co-financial advisor in connection with proposed $300 million and $978.8 million utility securitizations, respectively. Most recently served ONE Gas as financial advisor during the regulatory phases of the planned $1.3 billion Oklahoma Natural Gas and $198 million Texas Gas Service securitizations

CREDIT SUISSE SECURITIES (USA), LLC **2020-Present**

Senior Advisor to Credit Suisse

Consultant to Credit Suisse, including subsidiaries and affiliates, regarding structured finance transactions and new product development, with an emphasis on the power and utility sector. Serving as advisor to Electric Reliability Council of Texas Inc. in connection with $2.9 billion of proposed securitizations

GUGGENHEIM SECURITIES, LLC **2017 - 2020**

Senior Advisor, Structured Products Origination Group, Investment Banking Division

Focus on utility, power and energy securitizations and recapitalizations, as well as new structured product development across industry sectors. Served as a financial advisor to PNM and expert witness, testified before the New Mexico Public Regulation Commission in connection with a proposed $361 million utility securitization

ATKINS CAPITAL STRATEGIES LLC /
MAROON CAPITAL GROUP LLC **2013 – 2017**

Chief Executive Officer/Partner

Strategic consultant to investment banking and financial sponsor institutions, power, utility, service and industrial companies, as well as emerging U.S. and U.K. enterprises. Served as financial advisor to Entergy and AEP in connection with 4 utility securitizations in Louisiana and West Virginia totaling $793.8 million

- Utility securitizations
- Wireless spectrum securitizations
- Recapitalization and capital allocation
- Balance sheet optimization
- Corporate and structured credit analysis, rating agency negotiations

- Enhanced capital markets access
- Emerging enterprise business plan development and execution

MORGAN STANLEY & CO. LLC **1990 - 2013**

Executive Director, Global Capital Markets, Securitization Group

Principal focus on improving corporate capital structures, creating equity value by recapitalizing, enhancing access to the debt capital markets and lowering capital costs

- Team leader for the development of legal and credit structures for first-time structured solutions for financial sponsor and corporate clients
- Industry's leading utility securitization and corporate reorganization (ring-fencing) banker, serving as advisor and/or a lead underwriter for 24 transactions since 1997 totaling $22.6 billion for AEP, CenterPoint, Entergy, Constellation Energy, Baltimore Gas and Electric, Oncor, West Penn, Atlantic City Electric, SDG&E and PG&E.
- Testified as a utility company expert witness before regulatory commissions in Arkansas, Louisiana, Maryland, Texas in connection with 10 transactions
- Structured five International Financing Review "Deal of the Year" transactions
    - $965.4MM Louisiana Utilities Restoration Corporation (Entergy) – 2008 (off-balance sheet, off-credit electric system capital cost recovery)
    - $1.9BN Crown Castle – 2005 (wireless tower company recapitalization)
    - $418MM Global Signal – 2004 (wireless tower company recapitalization)
    - $800MM PPL Electric – 2001 (off-credit reorganization/recapitalization)
    - $290MM Arby's Franchise – 2000 (restaurant company recapitalization)

Developed and executed significant recapitalizations, reorganizations and acquisition financings for financial sponsor and corporate clients including

- Corporate reorganization of Constellation Energy in connection with the $4.5 BN nuclear JV with Electricite de France, uplifting subsidiary Baltimore Gas and Electric's (BGE) ratings, removing BGE's debt from Constellation's rating agency credit ratios (off-credit)
- Restructuring and $838MM debt recapitalization of leading security business Monitronics International, uplifting debt ratings from B1/B+ to Baa2/BBB-, lowering capital costs (an Abry Partners portfolio company)
- Restructuring and $290MM debt recapitalization of restaurant business Arby's, uplifting ratings from B1/B+ to A3/BBB-, lowering capital costs (a Trian portfolio company)
- Restructurings and $1.9BN, $418MM debt recapitalizations of wireless tower businesses, Crown Castle and Global Signal, uplifting debt ratings from B1/B+ to as high as Aaa/AAA, lowering capital costs (Global Signal - a Fortress portfolio company)
- Restructuring and $800MM debt recapitalization of PPL, issuing incremental electric transmission and distribution subsidiary debt, taking $3BN of subsidiary debt off-credit for parent rating purposes, without changing subsidiary or parent ratings
- Structuring and executing $800MM permanent acquisition financing for TimberStar Southwest, obtaining debt ratings to as high as Aaa/AAA/AAA, lowering capital costs (an I-Star Financial/Perry Capital/MSD Capital/York Capital portfolio company)
- Structuring and executing $315MM permanent financing for the Staples Center arena, based upon sports team and arena revenue contracts, obtaining A ratings and lowering capital costs (an Anschutz Entertainment Group subsidiary)

- Structuring a $33 BN student loan industry-sponsored ABCP conduit utilizing credit and liquidity support from the U.S. Government, to finance existing and newly originated federally guaranteed student loans (Straight-A Funding, LLC)

PREVIOUS EXPERIENCE:

LEHMAN BROTHERS INC. / E.F. HUTTON INC. **1985 - 1990**
Senior Vice President

OFFICE OF U.S. SENATOR DAVID L. BOREN (D-OK) **1983, 1985**
Legislative Counsel

MONDALE-FERRARO PRESIDENTIAL CAMPAIGN **1984**
Deputy National Campaign Manager, VP Campaign

DEMOCRATIC NATIONAL COMMITTEE **1983 - 1984**
Deputy Director, Platform Committee

THE WHITE HOUSE **1980 - 1981**
Associate Assistant to the President

AKIN, GUMP, STRAUSS, HAUER & FELD **1978 - 79, 1981 - 83**
Attorney, Washington, D.C. Office

OTHER:

METROPOLITAN MUSEUM OF ART **2013 - Present**
Board of Trustees, Elective Trustee
Audit Committee
External Affairs Committee
Director Search Committee (Search Completed)
Digital, Education, Publications, Imaging, Libraries
and Live Arts Committee
Diversity Committee
Digital Visiting Committee
Modern and Contemporary Visiting Committee
American Wing Visiting Committee

AMERICAN FOLK ART MUSEUM **2014 - 2018**
Board of Trustees, Member

AMERICAN SECURITIZATION FORUM **2003 - 2006**
Board of Directors, Alternate Board Member

U. S. EXPORT-IMPORT BANK **1997 - 1998**
Presidential Appointment, Advisory Committee

PRESIDENTIAL TRANSITION COMMITTEE **1992 - 1993**
U.S. Department of Housing and Urban Development

DISTRICT OF COLUMBIA BAR **1978 - Present**

Member (Inactive)

HOWARD UNIVERSITY **1974 - 1975**
Board of Trustees, Undergraduate Trustee

EDUCATION:

HARVARD LAW SCHOOL, J.D. **1978**

- Class of 1978 Committee Representative, elected by classmates

HOWARD UNIVERSITY, College of Arts and Sciences B.A. **1975**

- *Magna Cum Laude*
- Honors Program
- Phi Beta Kappa (Junior year)
- Major: Political Science / Double Minor: Math and Economics
- Howard University Board of Trustees, Undergraduate Trustee, elected by the several Undergraduate College student bodies
- College of Arts and Sciences Student Council, elected Sophomore Representative

KGS EXHIBIT CNA-2

Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.
(Also: §§ 61, 451 and 1001.)

Rev. Proc. 2005–61

SECTION 1. PURPOSE

This revenue procedure amplifies Rev. Proc. 2005–3, 2005–1 I.R.B. 118, which sets forth areas of the Internal Revenue Code in which the Internal Revenue Service will not issue advance rulings or determination letters.

SECTION 2. BACKGROUND

.01 Section 3 of Rev. Proc. 2005–3 sets forth a list of those areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions & Products), the Associate Chief Counsel (Income Tax & Accounting), the Associate Chief Counsel (Passthroughs & Special Industries), the Associate Chief Counsel (Procedure and Administration), and the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities) relating to issues on which the Internal Revenue Service will not issue letter rulings or determination letters.

.02 In Rev. Proc. 2005–62, page 507, this Bulletin, the Service provides a safe harbor with respect to the tax treatment of certain cost recovery transactions by regulated investor owned utility companies.

SECTION 3. PROCEDURE

Rev. Proc. 2005–3 is amplified by adding the following to section 3.01: Sections 61, 451 and 1001. Gross Income Defined; General Rule for Taxable Year of Inclusion; Determination of Amount and Recognition of Gain or Loss. Whether, under authorization by an appropriate State agency to recover certain costs pursuant to State specified cost recovery legislation, any investor-owned utility company realizes income upon: (1) the creation of an intangible property right; (2) the transfer of that intangible property right; or (3) the securitization of the intangible property right.

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2005–3 is amplified.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to all ruling requests pending or submitted after September 12, 2005.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

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26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also: Part 1, §§ 61, 451, 1001.)

Rev. Proc. 2005–62

SECTION 1. PURPOSE

This revenue procedure sets forth the manner in which a public utility company may treat the issuance of a financing order by a State agency authorizing the recovery of certain specified costs incurred by the utility and the securitization of the rights created by that financing order.

SECTION 2. BACKGROUND

Revenue Procedure 2002–49, 2002–2 C.B. 172, provides a safe-harbor regarding the treatment of legislatively authorized transactions entered into by investor-owned electric utilities to recover transition costs resulting from the restructuring of the electric utility industry and the institution of a competitive marketplace. Some States enacted legislation to allow the recovery of these transition costs through a non-bypassable surcharge to customers within a utility's historic service area.

Utilities continue to operate in wholly or partially regulated environments and maintain exclusive distribution networks for customers in their historic service areas. Rates charged for these operations are determined by local authorities to allow for the recovery of costs and an appropriate return on capital. Some States have enacted legislation that allows utilities to recover certain specified costs through a surcharge based on consumption by customers within the utilities' historic service areas and also authorizes securitization of the surcharge. These statutes are unique to regulated utilities. Accordingly, the tax treatment allowed by this revenue procedure for these transactions is peculiar to this situation. See Revenue Procedure 2005–61, page 507, this Bulletin, which adds certain related issues to areas in which rulings or determination letters will not be issued.

SECTION 3. CHANGES

The scope of Revenue Procedure 2002–49 was limited to transition costs that resulted from the deregulation of the generation operations of electric utility companies. This revenue procedure expands the scope of Revenue Procedure 2002–49 to all public utility companies, and costs that are recoverable through a securitization mechanism are not limited to transition costs. Additionally, this revenue procedure eliminates certain requirements in section 4.04(3) of Revenue Procedure 2002–49 relating to level payments and now requires that payments be made on a quarterly or semiannual basis.

SECTION 4. SCOPE

This revenue procedure applies to investor-owned public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable financing order from an appropriate State agency that determines the amount of certain specified costs the utility will be permitted to recover through qualifying securitization of an intangible property right created by the special legislation.

SECTION 5. DEFINITIONS

.01 PUBLIC UTILITY

For purposes of this revenue procedure, the terms "public utility" or "utility" refer to any investor owned utility company (electric or non-electric) that is subject to the regulatory authority of a State public utility commission or other appropriate State agency.

.02 SPECIFIED COST RECOVERY LEGISLATION

For purposes of this revenue procedure, specified cost recovery legislation is legislation that—

(1) Is enacted by a State to facilitate the recovery of certain specified costs incurred by a public utility company;

(2) Authorizes the utility to apply for, and authorizes the public utility commission or other appropriate State agency to issue, a financing order determining the amount of specified costs the utility will be allowed to recover;

(3) Provides that pursuant to the financing order, the utility acquires an intangible property right to charge, collect, and receive amounts necessary to provide for the full recovery of the specified costs determined to be recoverable, and assures that the charges are non-bypassable and will be paid by customers within the utility's historic service territory who receive utility goods or services through the utility's transmission and distribution system, even if those customers elect to purchase these goods or services from a third party;

(4) Guarantees that neither the State nor any of its agencies has the authority to rescind or amend the financing order, to revise the amount of specified costs, or in any way to reduce or impair the value of the intangible property right, except as may be contemplated by periodic adjustments authorized by the specified cost recovery legislation;

(5) Provides procedures assuring that the sale, assignment, or other transfer of the intangible property right from the utility to a financing entity that is wholly owned, directly or indirectly, by the utility will be perfected under State law as an absolute transfer of the utility's right, title, and interest in the property; and

(6) Authorizes the securitization of the intangible property right to recover the fixed amount of specified costs through the issuance of bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interest that are issued pursuant to an indenture, contract, or other agreement of a utility or a financing entity that is wholly owned, directly or indirectly, by the utility.

.03 SPECIFIED COSTS

For purposes of this revenue procedure, specified costs are those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation.

.04 QUALIFYING SECURITIZATION

For purposes of this revenue procedure, a qualifying securitization is an issuance of any bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interests that—

(1) Is secured by the intangible property right to collect charges for the recovery of specified costs and such other assets, if any, of the financing entity that is wholly owned, directly or indirectly, by the utility;

(2) Is issued by a financing entity that is wholly owned, directly or indirectly, by the utility that is initially capitalized by the utility in such a way that equity interests in the financing entity are at least 0.5 percent of the aggregate principal amount of the non-equity instruments issued; and

(3) Provides for payments on a quarterly or semiannual basis.

SECTION 6. APPLICATION

.01 The utility will be treated as not recognizing gross income upon—

(1) The receipt of a financing order that creates an intangible property right in the amount of the specified costs that may be recovered through securitization;

(2) The receipt of cash or other valuable consideration in exchange for the transfer of that property right to a financing entity that is wholly owned, directly or indirectly, by the utility; or

(3) The receipt of cash or other valuable consideration in exchange for securitized instruments issued by the financing entity that is wholly owned, directly or indirectly, by the utility.

.02 The securitized instruments described in Section 5.04 will be treated as obligations of the utility.

.03 The non-bypassable charges are gross income to the utility recognized under the utility's usual method of accounting.

SECTION 7. EFFECT ON OTHER DOCUMENTS

This document modifies, amplifies, and supersedes Rev. Proc. 2002–49.

SECTION 8. EFFECTIVE DATE

This revenue procedure is effective September 12, 2005.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

KGS EXHIBIT CNA-3

Investor Owned and Coop Utility Securitization Transactions, 1997 – 2022 (As of February 24, 2022)

#	Issuer	Deal Amount ($)	Pricing Date
1	SCE Recovery Funding LLC	$533,265,000	2/8/2022
2	Rayburn Country Securitization LLC	908,289,000	2/4/2022
3	Duke Energy Carolinas NC Storm Funding LLC	237,210,000	11/17/2021
4	Duke Energy Progress NC Storm Funding LLC	769,627,000	11/17/2021
5	PG&E Recovery Funding LLC	860,399,000	11/4/2021
6	WEPCO Environmental Trust Finance I, LLC	118,814,000	5/4/2021
7	SCE Recovery Funding LLC	337,783,000	2/17/2021
8	AEP Texas Restoration Funding LLC	235,282,000	9/11/2019
9	Public Service New Hampshire Funding LLC	635,663,200	5/1/2018
10	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
11	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
12	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
13	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
14	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
15	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
16	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
17	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
18	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
19	AEP Texas Central Funding III	800,000,000	3/7/2012
20	Centerpoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
21	Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
22	Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
23	Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
24	Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
25	MP Environmental Funding LLC	64,380,000	12/16/2009
26	PE Environmental Funding LLC	21,510,000	12/16/2009
27	CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
28	Entergy Texas Restoration Funding	545,900,000	10/29/2009
29	Louisiana Public Facilities Authority	278,400,000	8/20/2008
30	Louisiana Public Facilities Authority	687,700,000	7/22/2008
31	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
32	CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
33	Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
34	RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
35	FPL Recovery Funding LLC	652,000,000	5/15/2007
36	MP Environmental Funding LLC	344,475,000	4/3/2007

#	Issuer	Deal Amount ($)	Pricing Date
37	PE Environmental Funding, LLC	$114,825,000	4/3/2007
38	AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
39	JCP&L Transition Funding II	182,400,000	8/4/2006
40	Centerpoint Energy Series A	1,851,000,000	12/9/2005
41	PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
42	West Penn Power	115,000,000	9/22/2005
43	PSE&G 2005-1	102,700,000	9/9/2005
44	Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005
45	PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
46	Rockland Electric Company	46,300,000	7/28/2004
47	Oncor (TXU) 2004-1	789,777,000	5/28/2004
48	Atlantic City Electric	152,000,000	12/18/2003
49	Oncor 2003-1	500,000,000	8/14/2003
50	Atlantic City Electric	440,000,000	12/11/2002
51	JCP&L Transition Funding LLC	320,000,000	6/4/2002
52	CPL Transition Funding LLC	797,334,897	1/31/2002
53	PSNH Funding LLC 2	50,000,000	1/16/2002
54	Consumers Funding LLC	468,592,000	10/31/2001
55	CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
56	Western Mass Electric	155,000,000	5/14/2001
57	PSNH Funding LLC	525,000,000	4/20/2001
58	CL&P Funding LLC	1,438,400,000	3/27/2001
59	Detroit Edison 2001-1	1,750,000,000	3/2/2001
60	PECO 2001-A	805,500,000	2/15/2001
61	PSE&G 2001-A	2,525,000,000	1/25/2001
62	PECO 2000-A	1,000,000,000	4/27/2000
63	West Penn Power	600,000,000	11/3/1999
64	Pennsylvania Power & Light	2,420,000,000	7/29/1999
65	Boston Edison	725,000,000	7/27/1999
66	Sierra Pacific Power	24,000,000	4/8/1999
67	PECO Energy	4,000,100,000	3/18/1999
68	Montana Power	64,000,000	12/22/1998
69	Illinois Power	864,000,000	12/10/1998
70	Commonwealth Edison	3,400,000,000	12/7/1998
71	San Diego Gas & Electric	657,900,000	12/4/1997
72	Southern California Edison	2,463,000,000	12/4/1997
73	Pacific Gas & Electric	2,901,000,000	11/25/1997
Total		**$54,528,425,097**	

KGS EXHIBIT CNA-4

FitchRatings

Structured Finance
Asset-Backed
U.S.A.

U.S. Utility Tariff/Stranded Cost Bonds Rating Criteria

Sector-Specific Criteria

Table of Contents

This report updates and replaces "U.S Utility Tariff/Stranded Cost Rating Criteria," dated Dec. 10, 2019.

Applicable Criteria

Global Structured Finance Rating Criteria (October 2021)

Exposure Draft: Structured Finance and Covered Bonds Counterparty Rating Criteria (September 2021)

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Scope

This report presents Fitch Ratings' analytical approach to rating U.S. utility tariff/stranded cost bonds. The criteria are relevant for new ratings and surveillance, with differences detailed herein.

Fitch has only assigned 'AAAsf' ratings in this sector, and Fitch's new issue methodology only addresses 'AAAsf' rating outcomes. To date, Fitch has only rated transactions issued by electric utilities, and the analyses have been focused on electric consumption by customers within the utilities' service territory. However, Fitch believes the analysis and stress assumptions detailed in the criteria can be applied to other utility sectors, such as water and gas. In these unique circumstances, Fitch expects the legal and regulatory framework to be consistent with typical electric utility-issued transactions.

Key Rating Drivers

Each of the following key rating drivers is listed in order of importance for the analysis.

Legal Risks and Regulatory Framework: Unlike other ABS transactions, the cash flow stream supporting tariff bonds is a special tariff established under legislative or regulatory authority. Thus, the first and most significant component in Fitch's rating analysis is a thorough understanding of the statute and order. Fitch's analysis of tariff transactions includes a review of the legal structure to confirm that the cash flow derived from the special tariff will not be impaired or diminished.

Credit Analysis (Revenue Stability): The cash flow supporting tariff bonds is generated by payments from all or designated categories of customers in the utility's service territory. As such, Fitch reviews the composition of the service territory. Fitch also reviews the size of the tariff relative to the total customer bill to determine its viability, as excessive charges may present additional risk of political or regulatory challenge, in Fitch's view.

Structural and Cash Flow Analysis: Fitch uses a Utility Tariff Model, which is customized to reflect the payment structure of the transaction, and tests the impact of stressing various assumptions, including historical chargeoff and variance patterns. The output of the cash flow model is reviewed to determine whether the rated bonds are fully paid in accordance with the transaction documents in each stress scenario associated with a particular bond's rating.

Data Sources and Adequacy

Fitch utilizes historical data provided by the utility as inputs in its cash flow model, as well as for performance-based qualitative measures. Specifically, the stresses derived for the purposes of this methodology were developed based on a combination of historical data specific to each utility issuing the bonds and Fitch's analytical expertise. Therefore, Fitch reviews a minimum of five to 10 years of historical data demonstrating forecast consumption variance, delinquency rates and chargeoffs for each customer class. Fitch also expects to see data supporting the calculation and allocation of the tariff charge for each customer class, including the average customer bill for each class.

Historical data analysis may be deemed inadequate by Fitch due to (but not limited to) factors such as limited data availability and a history of poor consumption forecasting. In circumstances where full data sets are not provided or where Fitch deems provided data inadequate, Fitch will adjust its cash flow model assumptions accordingly, likely using a worst case scenario approach. If data provided are inadequate or insufficient, Fitch may cap the ratings it assigns or elect to not rate the transaction outright.

Legal and Regulatory Framework

Utility tariff/stranded cost bonds are secured by collateral in the form of a dedicated special tariff. This special tariff is unique relative to traditional asset-backed security (ABS), notably, the property securing these bonds is an intangible, future-flow regulatory asset, with special protections available to holders of tariff bonds that qualify achievement of 'AAAsf' ratings.

The revenue streams provided by the dedicated tariff are used for utilities to recoup cost associated with lost revenue or cost associated with repairing utilities' transmission and distribution system following a natural disaster (utility tariff bonds). Additionally, the dedicated tariff can be used to recoup unrecoverable contractual and sunk cost (stranded cost) due to deregulation within the utility sector.

The special tariff is a regulatory asset established pursuant to an enabling act (the statute) passed by a state legislature to serve a public interest need for this type of financing. The statute is followed by a regulatory approval referred to as a financing order (the order) issued by that state's utility commission or the equivalent agency of the state authorizing the issuance of bonds backed by the special tariff.

The statute uses the authority of the state contemplating securitization to establish obligations, such as the state pledge, and to grant the commission or the equivalent agency of the state any rights that it would otherwise lack under existing state law. The statute serves to order and implement the state's policy objectives with regard to the tariff monetization, whereas the order is analogous to a comprehensive procedures manual that sets forth specific transaction terms and related provisions.

Fitch begins its analysis of utility tariff/stranded cost securitizations by closely analyzing the legal framework in place, specifically, the statute and order. In states considering securitization, a special tariff component will be established as an irrevocable charge through the statute approved by the state legislature and by the order approved by the commission or the equivalent agency of the state. While reviewing the provisions of the statute and order, Fitch focuses primarily on the following seven legal and/or regulatory features of the transaction:

- property right;
- irrevocability and state support;
- bankruptcy remoteness/true sale;
- utility successor requirements;
- third-party energy providers;
- true-up mechanism; and
- nonbypassability.

Legal and Regulatory Considerations

- Special tariff established as a property right.
- Irrevocable by subsequent legislatures or commissions or the equivalent agency of the state.
- Statute, if applicable, includes the state non-impairment pledge.
- Supported by federal and state constitutional protections.
- Implication of the state referendum or ballot initiative process.
- Bankruptcy-remote issuer, nonconsolidation of trust assets with the utility and a true sale of property rights.
- First-perfected security interest in the property rights granted to the indenture trustee.
- Tariff true-up mechanism.
- Nonbypassable charges for customers connected to the distribution network.
- Guidelines for consolidated billing by third-party energy providers, if applicable.

Of importance, Fitch views the absence of enabling provisions (in the statute and/or order) that address any of the elements listed above as generally inconsistent with 'AAAsf' ratings. However, in instances where a true-up mechanism is not structured into a transaction, other forms of credit enhancement (CE) may be incorporated to offset the absence of the true-up mechanism (as described on page 4 in the True-up Mechanism section). The agency will take into consideration these other forms of CE in its analysis.

Property Right

Since the asset securing the tariff bonds is a right to a future cash flow stream, Fitch expects the statute or order to establish future special tariff collections as a property right that can be transferred and pledged as a security interest. Since the property right may not be governed by the Uniform Commercial Code, procedures for establishing a first-perfected security interest should also be outlined in the statute or order, as applicable. The amount of the special tariff, as well as the rules for its collection, should be defined in the order approved by the commission or the equivalent agency of the state in the relevant state.

Irrevocability and State Support

Irrevocability of the special tariff prohibits the legislature, the commission or any other agency or governmental entity from rescinding, altering or amending the special tariffs or property rights in any way that would reduce or impair their value. Fitch considers the irrevocability language an important protection against changing political agendas in the legislative or executive branches of government. It represents a high level of assurance of state regulatory action in support of the revenue requirements of tariff bonds.

Fitch expects this high level of assurance of state regulatory action to be further supported by the contracts and takings clauses of the U.S. Constitution and most state constitutions, which protect against contract impairment and property seizures without just compensation.

Tariff bonds are not direct obligations of the state or guaranteed by the state's full faith and credit. However, if the tariff bonds are issued pursuant to specific legislation, the statute typically includes a state non-impairment pledge wherein the state agrees that it will not limit or alter the special tariffs (the property right), the order or any other right under the bonds until the principal and interest on the bonds are fully paid or unless adequate compensation has been made to safeguard bondholder rights.

Because the assets securing these bonds are created through the political and regulatory processes, the statute and order may initially be subject to challenge from opposing parties. While the political process differs from state to state, the enactment of legislation or issuance of the order involves a process in which interested parties have the opportunity to challenge or submit amendments to the proposed language.

Generally, after the statute is approved by the legislature and/or the order is issued by the commission or the equivalent agency of the state, there is an additional defined period when outside parties can challenge the statute or order through litigation. When this period expires, the potential for further political and regulatory attack is substantially diminished. Therefore, transaction closings are expected to occur only after the statute and order become non-appealable.

Fitch recognizes that many states have a ballot initiative and/or referendum process that allows opposition groups to place a petition on the election ballot upon receipt of a given number of voter signatures. When analyzing tariff bonds issued under the relevant statute in these states, it is important to understand how ballot initiatives or referenda affect the federal and state constitutional protections, the irrevocability language and the state non-impairment pledge. Fitch expects transaction counsel to provide an analysis of the constitutional protections and issues in the relevant state.

Bankruptcy Remote/True Sale

The statute or order is expected to protect bondholders from the interruption or impairment of cash flows in the event of a utility bankruptcy, as explained in the Utility Successor Requirements section below. It is also expected to provide that the transfer of property rights to the trust will be treated as an absolute transfer, not as a pledge, of the seller's right to, title to and interest in the property. The statute or order should also define conditions for a valid, enforceable and perfected security interest for the indenture trustee. Some unique aspects to the analysis of utility tariff/stranded cost transactions are detailed in the Appendix.

To date, there have only been a limited number of utility bankruptcies associated with securitizations. Within this small subset, the securitizations continued to perform within expectations with no interference from any legislative or government entity.

Utility Successor Requirements

As with any future-flow securitization, asset-generation risk or the risk that the assets (special tariffs) may not be generated as expected in the future due to the utility's inability to continue operating, is a key consideration. Fitch believes this risk is largely mitigated by successor requirements imposed by the statute/order and the essential nature of utility services.

Therefore, to effectively de-link the rating of tariff bonds from that of the utility, Fitch considers it essential that the statute or order create an obligation on the commission or the equivalent agency of the state to ensure that, in the event of the incumbent utility's sale or bankruptcy, any successor to the utility (including, but not limited to, the utility as debtor-in-possession and the reorganized utility after bankruptcy) be treated as a successor (for purposes of imposition of special tariffs on the successor's customers) and be ordered to continue servicing the tariff bonds to avoid disruption in billing and collecting.

Third-Party Energy Providers

In some states, third-party energy providers (e.g. non-utility power generators, energy marketers and independent brokers) are granted the right to bill customers directly, not only for the energy commodity, but also for network distribution services performed by the utility (consolidated billing). In this case, the third-party provider collects and remits back to the utility the distribution fees and special tariff to service the tariff bonds.

If the statute or order allows for third-party consolidated billing, a typical result is the imposition by the state, authority or equivalent agency of the state of minimum credit quality or collateral requirements on parties wishing to assume this service. Generally, such guidelines include setting minimum credit standards for such providers, posting cash collateral to cover a period for which revenues are at risk and/or assumption of personal liability by the third party for billed amounts, regardless of collections. Fitch expects these guidelines to define the circumstances in which a third-party provider would be replaced either by the incumbent utility or an alternate servicer. This is important as the approval of the commission or the equivalent agency of the state is often a prerequisite for the transfer of billing and servicing responsibilities away from designated third-party energy providers under such jurisdictions.

True-Up Mechanism

The statute or order requires that the special tariff be reset periodically at least annually or semiannually. The reset, referred to as the true-up mechanism, adjusts the special tariff to a level sufficient to ensure that the periodic bond payment requirements (PBPRs) (interest payments, scheduled principal amortization, related fees and any replenishment of any CE balances) are met. The statute or order may provide for more frequent resets, either discretionary or mandatory, based on the occurrence of certain events, such as a minimum percentage variance between projected and actual principal amortization. Several states have also provided for more frequent true-ups in the final years of the transaction's life.

The true-up can increase or decrease the special tariff, depending on the positive or negative variance of actual tariff payments and/or energy consumption from the utility's projections. Applications for special tariff true-ups are generally filed with the commission or the equivalent agency of the state based on updated sales forecasts for the forthcoming years. Under the statute or order, the commission or the equivalent agency of the state does not have the discretion to disapprove or alter the true-up calculation, except to correct computational or other manifest errors. Also, the commission or the equivalent agency of the state is usually obliged by the statute or order to establish special tariffs at a level sufficient to repay the debt over the scheduled term.

Under the financing order, the tariff is deemed irrevocable and prohibits any legislature, agency or governmental authority from rescinding, amending or altering the tariff in any way that would impair or reduce the tariff value. The passed legislation includes a state impairment clause that ensures the value of the tariff cannot be altered in a negative manner until the issued bonds are paid in full.

The absence of a true-up mechanism could limit the ability to assign a 'AAAsf' rating. However, to date, Fitch has not rated a utility tariff/stranded cost transaction that was structured without a true-up mechanism. When it exists, adjustment of the special tariffs through this mechanism is the most significant credit component for these transactions. However, if the regulatory framework does not provide for any adjustment or if the true-up mechanism is inadequate, additional CE, such as reserve accounts or subordinated tranches, may offset the absence of the true-up mechanism. In such instances, Fitch will place greater reliance on the outcome of its cash flow stress scenarios to demonstrate adequacy of alternate forms of CE.

Nonbypassability

The special tariff is usually assessed as a charge on electric, water or gas delivery, applicable to the monopoly retail utility service. Therefore, regardless of which gas, water or electricity provider supplies the commodity delivered to the customer, the special tariff will be collected based on delivery service. This type of special tariff is frequently referred to as a network charge, since it applies to service over the utility's wire or pipeline system.

When customers are able to choose an alternative gas, water or power providers, they need to be connected to the distribution system, whether for primary or backup service, tends to limit their ability to bypass the special tariff. Customers can avoid the special tariff by changing their consumption of energy so that they are not using the distribution system or by moving out of the service area.

The statute generally provides that the special tariffs are nonbypassable, implying that a utility can collect these charges from all existing retail customers and all future retail customers within the service territory without any (or with a few) exceptions. Instances where covenants related to nonbypassability that allow for weaker provisions (that allow for significant exceptions) would not be consistent with a 'AAAsf' rating.

If the statute contains provisions that allow for significant exceptions, Fitch will apply more severe variance stresses to the related customer classes in its cash flow scenarios. However, the complete exclusion of nonbypassability provisions will likely preclude a transaction from receiving a 'AAAsf' rating, since it would introduce significant uncertainty in future cash flows, which would be difficult to quantify in cash flow stresses.

Credit Analysis (Revenue Stability)

Since the cash flow supporting the tariff bonds is generated by payments from all or designated categories of customers in the utility's service territory, it is important to analyze the composition of the service territory to determine the size and usage level of the customer base, customer delinquencies, regional economic sensitivities and weather-related seasonality.

Customer Base

The size and variability of the customer base have a significant potential effect on cash flows to the bonds. Fitch reviews a number of economic factors in its analysis of the customer base, including the size and shape of the service territory (the geographic footprint), diversity of the customer pool, change in housing starts during recessionary periods, exposure to key industries, cyclicality of key industries, historical recessionary bankruptcy data and existence of any major military bases in the territory. These qualitative factors help Fitch develop an understanding of the utilities' customer base, which, ultimately, provides the cash flows to pay the liabilities of the trust. In general, a utility's customer base is segmented into four primary segments: residential, commercial, industrial and government.

The residential segment will provide a high level of customer diversification, similar to that found in credit card receivables ABS transactions. Since the special tariff is assessed against a household rather than an individual, it is assumed that the majority of residents moving away from a service territory will be replaced with new residents. Thus, the residential segment tends to be a large, diversified and relatively stable source of cash flow.

Industry and individual commercial concentrations are also assessed, as the utility's commercial and industrial customers may represent significant concentration in the customer base. These customers tend to be fewer in number and contribute higher tariff revenues per account than residential customers. The government segment has historically represented a lower percentage of usage but can be exposed to government appropriation risk. Fitch incorporates the risks associated with customer concentrations by stressing billing risk and no industrial/commercial consumption in its cash flow stress tests.

Risk is greater if responsibility for specified portions of the securitized special tariffs is assigned to particular customer classes, including one or more classes with relatively few customers. Risk is mitigated if all customer classes bear responsibility through the true-up mechanism to pay in full the securitized special tariffs. In this case, the customer classes are said to be cross-collateralized.

An example of customer class concentrations is depicted in the table below. Of note, residential customers represent 50.0% of consumption and 43.3% of billed revenue. The industrial class represents 30.0% of consumption and 26.7% of billed revenue. The remaining customer concentration resides in the commercial customer class, which represents 20.0% and 30.0% of total consumption and billed revenue, respectively.

Due to the concentration diversity, the cross-collateralization softens the impact of reduced consumption in the event usage within a specific customer class declines. While utility service areas are typically diversified in regards to customer classes, Fitch may incorporate additional stresses on a nondiversified pool. In particular, if the customer base concentrations are outside historical levels for the utility, a higher stress would be considered to account for the change in concentrations. For example, in a pool with a high concentration of commercial customers and no industrial customers, Fitch may apply a similar stress on the commercial customers as described in the No-Industrials Stress section detailed on page 12 of this report.

Customer Service Territory: XYZ Utility Co.

Customer Class	Consumption (kWh)	% of Total	Retail Billed Revenues ($000)	% of Total
Residential	500	50	650,000	43.3
Commercial	200	20	450,000	30.0
Industrial	300	30	400,000	26.7
Total	**1,000**	**100**	**1,500,000**	**100.0**

kWh – Kilowatt hours. Note: Numbers may not add due to rounding.
Source: Fitch Ratings.

Size of Dedicated Tariff Component

Fitch believes that when the special tariff dedicated to servicing the bonds is a relatively small portion of customers' all-in cost of utility service, increases in the special tariff under the true-up mechanism are less likely to reduce consumers' demand for utility services or to stimulate consumers to adopt alternative, off-the-grid energy services (see the *Self-Generation and Alternate Technologies* section, starting on page 18). If the special tariff is large or total rates are high, customers may have a greater economic incentive to invest in alternative energy technologies, reduce their consumption, become self-generators or seek political or legal overturn. It is unfavorable from a credit viewpoint if the special tariff represents a significant portion of the total delivered cost of utility services, especially if it may affect the economic competitiveness of major industrial customers in the utility's service area.

Fitch incorporates an analysis that attempts to stress pools with high industrial customer class concentration. The analysis tests the ability of the transaction to withstand the complete loss of consumption from the industrial class, assuming base case conditions hold. Where special tariffs are cross-collateralized within the utility's service territory, consumption shortfalls for a customer class (such as industrial) can be corrected with a true-up across customer classes.

Fitch believes that special tariffs (under all scenarios) in excess of 20% of the customer bill over a long financing term would generally be inconsistent with a 'AAAsf' rating. In circumstances where the special tariff exceeds the 20% threshold, the likelihood of full principal payment by

Credit Analysis Checklist

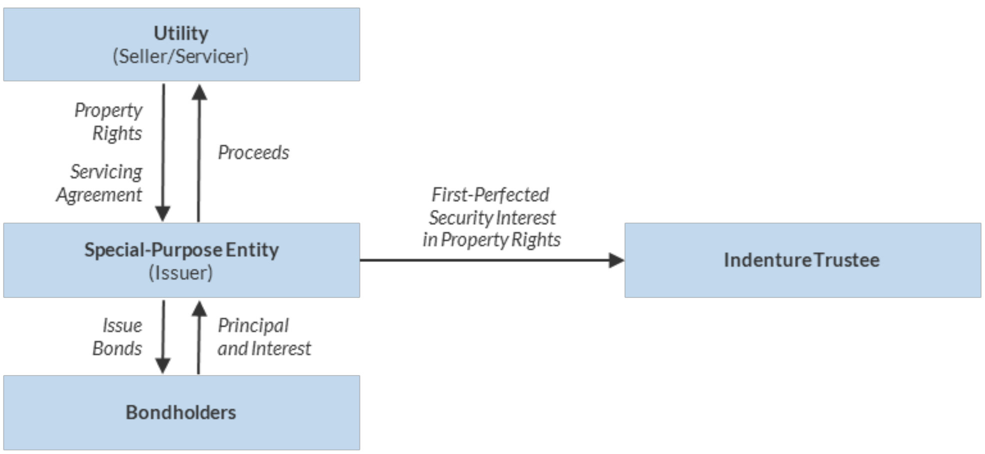
- Composition of the customer base.
- Customer concentrations in commercial and industrial segments and customer class cross-collateralization.
- Regional industrial concentrations.
- Strength of the regional economy.
- Geographic footprint.
- Seasonality and cyclicality.
- Size of the dedicated special tariff and effect on the all-in cost to consumers.
- Development of alternative energy-generation technologies.
- Opportunities for self-generators to disconnect from the power grid while maintaining exemption to special tariffs.

the legal final maturity would not be consistent with a 'AAAsf' rating. In circumstances where multiple tariffs are charged to one specific service area, Fitch will take into consideration the aggregate amount of tariffs.

For example, if a utility issues multiple securitizations, the 20% threshold would apply to the aggregate tariffs from all the securitizations. This is a guideline utilized by Fitch based on the premise that, as long as special tariffs continue to represent a small percentage of an average customer bill, the potential for political or regulatory challenge is substantially diminished, and the reliability of the true-up mechanism as the primary source of CE is preserved.

Structural and Cash Flow Analysis

Transaction Structure



Source: Fitch Ratings.

Transaction Structure

At closing, the seller, which is typically the utility, transfers its ownership interest in the property rights to a bankruptcy-remote SPV (usually a limited liability company) that serves as the issuer of the securities.

The SPV, pursuant to its statutory or regulatory authorization, will grant a first-perfected security interest in the tariff property to a trustee on behalf of bondholders. The flow chart at right summarizes the basic structure for these transactions.

Tariff bonds issued by the SPV may be tranched into multiple classes of self-amortizing bonds with serial maturities. The principal amortization schedule may be structured as level, mortgage style or variable payments. The key to assessing the appropriate amortization schedule is to determine that proposed payments are consistent with forecast seasonal fluctuations in collections.

While the projected principal amortization schedule is established at closing, principal shortfalls generally do not trigger an immediate default under the transaction documents. If there is a periodic reset, the true-up mechanism is used to make up for any prior shortfalls in interest, principal, fees or any CE balances so that principal shortfalls are compensated by tariff adjustments on the true-up filing anniversary immediately succeeding such shortfall (or sooner if permitted by the order).

Fitch evaluates the relationships of all aspects of the structure in assigning rating to tariff bonds. However, certain structural factors are given greater weight. For example, if the authority to impose the special tariff expires after a specified date, the final maturity date for the bonds is expected to fall within the maximum term of the tariff, as defined by the statute or order. Back-ended principal payments (e.g. mortgage-style amortization) may increase risk toward the end of the term. Also, given the technology risks associated with tariff bond transactions, Fitch applies more challenging cash flow stress scenarios for longer-term bonds (see the *Self-*

Generation and Alternate Technologies section, starting on page 17, and the *Cash Flow Modeling* section on page 9).

Credit Enhancement

The primary form of CE for tariff bonds is the true-up mechanism, which requires that the commission or the equivalent agency of the state review and adjust the special tariff periodically to correct any undercollections or overcollections. The true-up mechanism, along with the essential nature of utility services, help mitigate the cash flow variability that may be present in a utility tariff/stranded cost transaction. Traditional CE, such as cash reserves or overcollateralization, tends to be relatively small (historically 0.5%–1.5% of the initial principal amount).

Fitch considers this minimum amount of enhancement as sufficient to achieve 'AAAsf' ratings for bonds structured with an adequate true-up mechanism, since cash flow variability is mitigated by the periodic true-ups and the essential nature of utility services. Traditional CE would be necessary to cover any timing gaps between when the bond payment is due and when the tariff true-up occurs. These traditional forms of CE are detailed in Fitch's "Global Structured Finance Rating Criteria," which discusses the various forms of CE and risks inherent in each. Therefore, it is important to understand the terms of the true-up mechanism and the overall bond structure. Fitch will review the relevant CE structure, including the true-up mechanism in each transaction and replicate it within the agency's cash flow model.

In addition to the true-up mechanism, other forms of CE typically included in the structure of tariff bonds are reserve, or excess funds, subaccounts and capital subaccounts. Reserve subaccounts are funded with excess spread, to the extent available, in each reporting period, which may have required levels based on the outstanding debt level. Alternatively, capital subaccounts are funded at transaction closing. Subaccounts are established to cover timing mismatches of collections and required payments. Withdrawals from subaccounts may occur to cover payment shortfalls. Following withdrawals, the capital and overcollateralization subaccounts are replenished in subsequent periods to the extent excess funds are available.

However, for reserve subaccounts, the true-ups are either calculated to utilize and eliminate all remaining amounts reduced by the tariff over-collections from customers or, in some cases, to replenish the reserve subaccounts to a required level. While the true-up mechanism adjusts the special tariffs at least annually, ideally, any cash flow shortfalls are expected to be recovered by the end of the following year.

Historically, volatility in tariff charges for Fitch-rated transactions has been limited. In cases where there is a large move in the tariff because of a true-up (accounting for large over/under-collections), this scenario has been short lived, as the tariff was adjusted at the next true-up date. Furthermore, the majority of Fitch-rated transactions are allowed to true-up more frequently if performance was significantly outside of expectations. The capital subaccount typically represents a small percentage of the initial principal balance, providing some liquidity in the early stages of the deal, in addition to support toward the end of the transaction. Although back-end credit support is generally provided by available subaccounts, ultimately, the true-up mechanism is the primary credit support for most utility tariff/stranded cost transactions.

Sizing of the CE depends on the terms of the true-up mechanism, bond structure and strength of cash flows. For example, bonds structured with back-ended principal amortization may need higher CE in the early years to compensate for lower interest coverage. If bonds were structured without a true-up mechanism, substantially higher CE levels would be expected.

Collection Accounts

An indenture trustee establishes collection accounts into which all special tariff collections will be deposited. The frequency of the utility's deposits to the collection accounts will depend on commingling provisions, as described in the Counterparty Risk section on page 13. Funds held in these accounts will pay transaction fees and expenses, principal and interest and any overcollateralization requirements on a monthly, quarterly or semiannual basis. Any excess cash collected is normally held in a reserve account and, if applicable, incorporated in the calculation of the next true-up.

Cash Flow Modeling

Fitch integrates the primary asset- and liability-side data presented in each structure into its internal Utility Tariff Model. The assumptions embedded in the model are based on the proposed structure and terms outlined in the order. Such an approach provides Fitch with a consistent basis for comparison across different transactions. However, while the Utility Tariff Model is an important consideration in determining the final rating, ratings are ultimately assigned by a Fitch rating committee, which takes into consideration both quantitative and qualitative factors.

While the Utility Tariff Model is updated based on the structure of the bond, as well as the statutory and regulatory framework, it addresses fundamental credit issues common to all securities in this asset class. Cash flow models incorporate: the forecast energy consumption (by customer class); assumptions on collections and chargeoffs; the true-up mechanism, including the mandated frequency of true-ups and any allocation factors specified by the order; billing and servicing risks posed by third-party energy providers, if applicable; special tariffs by customer class; CE; and PBPRs.

Modeling Methodology

When analyzing tariff bond transactions, Fitch assumes a permanent and appreciable decline in consumption attributable to various factors, including economic recessions, demographic shifts, co-generation, energy conservation and forecasting errors. Fitch's cash flow stress methodology aggregates these multiple contributory factors and applies a single variance percentage to cash collections to determine if revenue declines from adverse consumption variances are offset in subsequent periods by the application of the true-up mechanism.

'AAAsf' Stress

Fitch has only assigned 'AAAsf' ratings in this sector; therefore, Fitch's new issue methodology only addresses 'AAAsf' rating outcomes. Fitch's new issue methodology includes two stresses, the 'AAAsf' stress and no-industrials stress, as described below. To assign 'AAAsf' ratings, the special tariff cannot be in excess of 20% of the customer bill under both stress scenarios. Fitch's 'AAAsf' stress case stresses the following key model variables, each of which is meant to incorporate multiple risk factors previously described and results in a reduction in cash flows below projections.

Stress Forecast Variance

The first stress variable is applied as a stressed forecast variance to projected consumption. Fitch reviews the consumption forecast provided by the utility (issuer). The stressed variance is intended to incorporate the effect of an economic recession, extreme weather changes, changing usage patterns or general demographic shifts. The 'AAAsf' stressed forecast variance is set at 5.0x the historical five- to 10-year peak absolute forecast variance (i.e. the largest variance, whether the forecast was too high or too low). As a further stress, these stressed variances are applied to the first year and increased 1% annually thereafter for the first 10 years, then by 1.5% for the next five years and 2% thereafter.

Fitch believes the 'AAAsf' stresses appropriately account for potential asset deterioration from future weakness in the U.S. economy. If five to 10 years of historical forecast data are not available, Fitch will review the available history but may apply higher multiples to adjust for limited data.

Reforecasting Stress

Fitch assumes that, even as actual consumption declines below original forecasts (by the stressed forecast variance above), the utility does not promptly rectify its original forecasts to reflect this adverse variance. Specifically, this stress assumes that a revision of original forecasts (or a reforecasting process) will only commence two years after the stressed forecast variances take effect. Thereafter, forecasts will be aligned with actual experience. However, in the interim two-year period, an inadequate true-up adjustment will occur, resulting in additional cash flow stresses.

Self-Generation/Technology Risk

Fitch assumes that technological uncertainty increases over time, especially for commercial and industrial customers. This would subsequently increase the risk of self-generation or adoption of alternate energy sources as greater technological options become available. To incorporate this risk, Fitch assumes that the stressed variance increases exponentially over the term of the bonds, based on the perceived risk of self-generation or alternate energy sources for the utility's customer base. In some states, the special tariff is imposed even if a consumer switches to self-generation. However, Fitch does not incorporate forecast consumption from this source in its cash flow analysis. In circumstances where consumption has increased or expected to increase, Fitch will consider incorporating additional stresses in the agency's stressed cash flow scenarios, such as the application of a higher multiple to the 10-year peak consumption variance in the 'AAAsf' stress scenario.

Delinquency Rates

To incorporate the effects of delinquency rates on forecast collections, Fitch reviews the utility's historical delinquency experience and applies a 5.0x multiple to the highest delinquency period. If the transaction uses a collections curve, Fitch assumes delays in actual collections beyond the collections curve.

Chargeoffs

Despite utilities' historically low chargeoff ratios, Fitch applies chargeoff ratios at 5.0x the five- to 10-year historical peak chargeoff. The historical data to be analyzed may vary based on the credit quality and term of the deal.

Successor Servicer Fee

The 'AAAsf' stress case assumes that a successor servicer is appointed at closing. Accordingly, a higher successor servicer fee (provided for in transaction documents or as specified in the order) is utilized for purposes of cash flow modeling.

To date, only a limited number of servicers have experienced significant credit-related distress. Fitch believes there is a market for backup servicing within this sector. However, there have been limited servicer transfers in prior bankruptcy cases. Due to the essential-use nature of a utility, the servicer was mandated to continue to service their portfolios, having no impact on securitization performance. Fitch has not been aware of any utility bankruptcies that have had a material impact on Fitch-rated ABS transactions.

Billing Risk

Fitch assumes that, each year, cash flows relating to the month with the largest billed amount are fully written off due to a servicing disruption event.

Additional 'AAAsf' Stresses (If Applicable)

Third-Party Billing Agent Default

In jurisdictions where third-party energy providers are allowed to perform consolidated billing, the 'AAAsf' stress model incorporates a test of the transaction's maximum exposure to third-party collections. To test the effect of a potential third-party default, the stress case assumes third parties take over billing for a large percentage of the customer base and default each year for the entire term of the bonds. The length of the assumed default and percentage of the customer base affected vary based on the third party's commingling restrictions contained in the statute or order.

Franchise Fee Stress

In certain jurisdictions, franchise agreements between a utility and municipality are required for the utility to use the municipality's right of way (public property) and establish a transmission and distribution system within that particular service area. In circumstances where the utility has entered into franchise agreements permitting it to provide service to municipalities (or parishes) in exchange for a franchise fee, an implied loss is added to base case chargeoff rates, as described below.

Franchise fees payable to a municipality by a utility are typically recoverable from customers. The franchise fee stress assumes that the portion of franchise fees recoverable from customers in applicable municipalities (as a percentage of the total base revenue of the utility) is not recovered. For example, if $5.00 is recoverable from customers as a franchise fee and the total base case revenue of the utility is $1,000.00, 0.5% is modeled as an implied loss. The implied loss (0.5%) is added to the base case chargeoff level (say, 2.0%) to arrive at 2.5% and a 5.0x multiple is applied to it, resulting in a 'AAAsf' modeled chargeoff rate of 12.5%, instead of 10.0%.

Interest Rate Risks

Fitch will identify any underlying interest rate mismatches in a proposed transaction and analyze the extent to which these positions are mitigated through the transaction's hedging structure, if any. Any relevant hedge counterparties must be consistent with Fitch's "Structured Finance and Covered Bonds Counterparty Rating Criteria," "Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum," and "Structured Finance Transactions and Covered Bonds Interest Rate Stresses Rating Criteria," reports, available on Fitch's website at www.fitchratings.com.

Illustrative Example

Example: XYZ Trust Series A

	Period	Residential	Commercial	Industrial	Total
Forecast Growth Rate of Electric Consumption by Customer Class (P.A.) (%)	All Years	1	1	1	—
Forecast Consumption over Time in Kilowatt Hours (kWh)	Year 0	500	200	300	1,000
	Year 1	505	202	303	1,010
	Year 2	510	204	306	1,020
	Year 3	515	206	309	1,030
Distribution of Consumption Across Customer Classes (%)[a]	Initial	50	20	30	100
Allocation Factors (%)	Initial	30	30	40	100
Base Case Special Tariff ($/kWh)	Initial	0.006	0.015	0.013	—
Periodic Bond Payment Requirement (PBPR) (P.A.) ($)	Initial	—	—	—	10
Allocation of PBPR Burden Across Customer Classes ($)[b]	Initial	3	3	4	10

[a]Equals forecast consumption for a given customer class divided by the sum of the forecast consumption across all customer classes (for the initial year) in kWh. [b]Equals forecast consumption for a given customer class (in kWh) times the base case special tariff (for the initial year). P.A. – Per annum.
Source: Fitch Ratings.

To illustrate the application of the 'AAAsf' stress case, a hypothetical tariff bond transaction has been created — XYZ Trust Series A, with XYZ Utility Co. as the sponsoring utility. As shown in the table above, XYZ Co. provides electric service to three customer classes (residential, commercial and industrial), which accounted for 50%, 20% and 30% of total consumption in that service territory, respectively, as of the closing date.

Calculation of the Special Tariff at Each True-Up Period

The special tariff is assessed against each customer bill based on consumption (energy usage in kilowatt hour [kWh]) and is required to be adjusted via the true-up mechanism once every year. The order establishing the special tariff also stipulates that the revenue burden each period, or the PBPR, of $10 be allocated among the three customer classes in a specific proportion. These relative revenue proportions are referred to as allocation factors and are stipulated in the order.

The initial allocation factors require that the PBPR be allocated 30%, 30% and 40% among the residential, commercial and industrial customer classes, respectively. The order allows for allocation factors to be updated periodically to reflect changes in average demand across customer classes over time and to facilitate cross-collateralization across customer classes. However, for purposes of cash flow modeling, the cash flow model may assume that allocation factors remain fixed, which creates higher volatility in the special tariffs than would actually occur.

As the expected distribution of consumption by customer class need not match the prescribed distribution of revenue burden by customer class, a uniform special tariff cannot be levied across all customer classes. Therefore, on each true-up date, the model solves for a special tariff applicable to each of the three customer classes, which would not only be sufficient to meet the PBPR but also maintain the integrity of the two relative distributions described above. Based on this methodology, the initial special tariffs are 0.6, 1.5 and 1.3 cents/kWh for the residential, commercial and industrial classes, respectively.

'AAAsf' Stress Variables

Fitch first applies a multiple of 5.0x to XYZ Co.'s historical 10-year peak consumption variance of 5%, 2% and 10% experienced in the residential, commercial and industrial classes, respectively. For the residential class, this translates into a stress forecast variance of 25% in year 0, which means that only 75% (i.e. 375 kWh) of the original forecast consumption of 500 kWh is realized. This stressed variance is then increased 1% annually until it reaches 28% on the legal final maturity date (year 3).

A special tariff of 0.6 cents/kWh is levied on the stressed consumption levels (for the residential class), resulting in lower billed revenues relative to the base case. To address billing risk, Fitch assumes that 100% of the billed revenue for the peak billing month (say, September) in each year is written off with no recovery. Next, to model delays in the collection of billed revenues, the collection curve is lengthened such that 50% of the amounts billed for the first two months are subject to a 30-day delay. Fitch also applies a 5.0x multiple to peak chargeoffs of 2%, resulting in stressed chargeoffs of 10%. Additionally, the increased successor servicer fee of 1% (the maximum fee permitted by the order) is utilized for purposes of cash flow modeling.

No-Industrials Stress

This case is designed to test the risk from self-generation and new technologies, which is more inherent in this asset class. In service territories deemed to have industrial concentrations, Fitch tests the ability of the transaction to withstand the complete loss of consumption from the industrial class, assuming base case conditions hold. Stress tests may be further customized for specific industry concentrations that pose higher than normal credit and/or cogeneration risk.

The goal of this scenario is to analyze the impact on peak special tariffs for residential, commercial and other customer classes if all the industrial customers were to leave the service territory upon a transaction's closing.

Fitch 'AAAsf' Stress Scenario

Stress Variable: Variance and Consumption Stress (%)	Residential	Commercial	Industrial (%)
Highest Absolute Total Variance (10-Year Historical)	5	2	10
AAAsf Stress (5.0x Highest Absolute Variance)	25	10	50
% Increase in Variance Stress Each Year	1	1	1

	AAAsf Variance (%)	AAAsf Consumption[a]	AAAsf Variance (%)	AAAsf Consumption[a]	AAAsf Variance (%)	AAAsf Consumption[a]
Year 0	25	375.0	10	180.0	50	150.0
Year 1	26	373.7	11	179.8	51	148.5
Year 2	27	372.3	12	179.5	52	146.9
Year 3	28	370.9	13	179.3	53	145.3

Stress Variable: Delinquency Stress	Base Case (%)	AAAsf (%)
Paid on Due Date	40	20
One Month Overdue	44	42
Two Months Overdue	8	20
Three Months Overdue	4	2

Four Months Overdue	1	2
Five Months Overdue	1	2
Six Months Overdue	0	2
Never Collected	2	10
Chargeoff Stress (5.0x Historical 10-Year Peak Chargeoffs)	2	10
Servicer Fee: Successor Servicer Fee	0.25	1.00
Billing Risk	N.A.	One-Mo. Writeoff

[a]AAAsf consumption equals base case consumption times one minus variance. N.A – Not available.
Source: Fitch Ratings.

Rating Assumption Sensitivity

Fitch's rating assumption sensitivity analysis seeks to determine the break-even rate of consumption decline a transaction could withstand before leading to a default in the payment terms of the transaction. In its analysis, Fitch utilizes its cash flow model to decrease the rate of consumption in 1% increments until the amounts collected are no longer enough to meet the minimum interest required each period or fully repay principal by the legal final maturity date (provided that nonpayment of principal according to the amortization schedule does not constitute an event of default under the bonds).

Fitch's sensitivity analysis is reviewed to understand the amount of adverse consumption variance that the transaction could withstand in a situation of a material decline in electricity demand. The goal of this scenario is to stress only one variable, the variance in consumption; therefore, all other assumptions should be consistent with the base case. This defined rating sensitivity to consumption decline is conducted for every transaction rated by Fitch and detailed in the respective presale rating report.

Generally, the period between the transaction closing date and first payment date is the most sensitive to consumption declines. This is because reduced tariff collections resulting from significant declines in consumption early in a transaction's life cannot be corrected until the first true-up date. Also, first payment dates often tend to follow more than six months after the transaction's close, as opposed to normal semiannual payments, allowing for greater declines in consumption than would typically be expected from a six-month payment interval. The exact cases developed to achieve this goal will vary by transaction.

Counterparty Risk

The following section highlights some counterparty risks to utility tariff ABS transactions. However, Fitch's counterparty analysis should be considered in conjunction with the relevant counterparty risk criteria. For more information on counterparty risk, refer to Fitch's "Structured Finance Transactions and Covered Bonds Counterparty Rating Criteria," which includes Fitch's rating criteria for assessing the operational risk of servicers of structured finance products, including ABS.

Commingling

As tariff charge remittances are received by the utility (as servicer), transaction documents may allow for commingling of such remittances with the utility's funds for a short period. This presents the risk that, in the event of servicer bankruptcy, such remittances could be deemed to be part of the utility's bankruptcy estate. However, in accordance with Fitch's counterparty criteria, the agency views this risk as being largely mitigated because as remittances are received on a daily basis, they are transferred from the utility to the transaction-specific lock box within a short period (in most cases, within two business days). This limits the likelihood of a substantial amount of trust cash flows being commingled with the utility's other collection accounts.

Furthermore, utility tariff/stranded cost ABS' waterfall structures generally allow principal payments to be used to pay interest, while subsequent scheduled principal amortization shortfalls are covered via the true-up mechanism. (Fitch's counterparty criteria stipulate that supplementary CE, in this case, the true-up mechanism, can be sufficient to address short-term commingling risk.)

Transactions that do not allow for principal to pay interest or contain other structural features that negate this mitigant are expected to follow the requirements governed in Fitch's counterparty criteria. To date, Fitch has not rated a utility tariff/stranded cost transaction that did not allow for principal to pay for interest. Moreover, as described in Fitch's Cash Flow Modeling section on page 9, its 'AAAsf' stress scenario includes stresses that are intended to address each transaction's ability to withstand servicing disruptions.

Seller/Servicer (Utility Provider) Operational Analysis

Fitch recognizes that the quality, stability and financial condition of the seller/servicer's operations have a meaningful impact on the performance of utility tariff/stranded cost ABS transactions. Fitch's utility tariff/stranded cost/stranded cost ABS ratings include an evaluation of the seller/servicer. Historically, these transactions are serviced by the originator (the utility) of the assets. Fitch considers the servicing disruption risk low for the sector given the relative ease of servicing these type portfolios, established servicing standards, essential use nature of utilities and limited instances of bankruptcies. In the two instances where the utility filed for bankruptcy, the court affirmed the bankruptcy due to the essential use nature of electricity and allowed the utility to continue to charge and service the special tariff.

For these reasons, Fitch does not usually look for backup servicing arrangements or similar risk mitigants in its analysis. However, if servicing continuity risk is present (e.g. weak servicer credit quality and limited servicing experience), Fitch will analyze the servicing disruption risk in line with criteria outlined in its "Structured Finance and Covered Bonds Counterparty Rating Criteria" report, which typically calls for other mitigating factors, such as backup servicing arrangements, to maintain high investment-grade transaction ratings.

The utility is normally designated to act as servicer for the bonds, performing activities such as billing, calculating and collecting the tariff; calculating and filing for true-up adjustments; and forecasting sales and usage. In circumstances where a third-party energy service company performs consolidated billing, the utility functions as master servicer to consolidate and supervise collections from third parties. Utilities normally have extensive experience in the functions necessary to act as servicer. Also, a utility's ability to terminate utility services to nonpaying consumers is a strong incentive for bill payment. Additionally, the utility has an ongoing interest in continuing to perform billing and collection services, since it retains the majority of the total tariff. As such, Fitch's review of the seller/servicer focuses primarily on the utility provider.

Fitch expects to conduct a review of the utility's operations, including its credit evaluation processes, usage forecasting and servicing divisions, combined with a corporate review, prior to assigning ratings for new issuers. These reviews are often completed in conjunction with Fitch's Corporate Global Power and ABS groups. Fitch's operational analysis focuses on three main factors:

- corporate performance, including operational and financial stability;
- the capabilities and quality of credit evaluation processes and usage forecasting; and
- the capabilities and quality of servicing operations.

Given the essential use nature of utilities, there have been limited instances of bankruptcies that have led to servicer transfers. Furthermore, the servicing is generally uniform across utilities allowing for relative ease of servicing transition, if required. As such, Fitch typically does not complete post-close operational reviews. However, if unique circumstances arise such as significant changes in utilities' staff or operational changes that could have a negative impact of the transactions performance, Fitch would speak with senior management to gain an understanding of the changes and assess the impact on servicing.

Corporate Overview

An understanding of the company's history, structure, strategic objectives, management experience and funding capabilities is key to the operational review undertaken by Fitch. Ultimately, the servicer's strength affects Fitch's performance expectations, as well as its counterparty risk analysis.

Fitch believes that the financial condition of a company/servicer has a direct impact on the stability of its operational platform and, ultimately, on the performance of utility tariff/stranded cost ABS transactions. Fitch considers several factors and quantitative metrics in reviewing a company's financial condition to assess a seller/servicer's business viability, operations and financial health. These include available public credit ratings and, if not available, internal credit opinion will be conducted by Fitch. For companies not rated by Fitch, the agency expects to receive at least three years of audited financial statements, history of profitability and sources and levels of capital and liquidity.

As part of the evaluation, Fitch reviews merger/acquisition activity, expansion plans or intentions to exit or scale back specific businesses that could influence operating performance. Aggressive growth objectives involving acquisitions require greater scrutiny of the utility's volume capacity and resources, as well as integration planning and execution.

While a sub-investment-grade utility may be an acceptable servicer based on its operational qualifications, Fitch expects the transaction to provide for the right to replace the utility with an alternate servicer in the event of a decline in credit rating, insolvency or failure to perform any of the duties of servicer. The order and/or transaction documents typically incorporate a successor servicer fee sufficient to adequately compensate a backup servicer that takes on this role.

Although Fitch views positively such backup servicer provisions in transaction documents, the lack of such provisions per se is not likely to limit a potential 'AAAsf' rating. However, as explained in the Utility Successor Requirements section on page 4, Fitch views it as imperative that the statute or order create an obligation on the commission or the equivalent agency of the state to ensure that, in the event of the incumbent utility's sale or bankruptcy, the successor to the utility (at the very least) be ordered to continue servicing the tariff bonds.

Fitch looks at the experience and tenure of the underwriting and servicing employees on three levels: senior management, middle management and staff. Employee hiring, turnover and retention are important issues reviewed, as are the stability and depth of the management team. Training programs are included in the evaluation of a seller/servicer.

Fitch may adjust or cap the ABS ratings issued on a securitization, adjust base case assumptions or decline to rate a transaction in cases where the agency believes it is merited based on its review of the utility. Reasons for doing so could include poor financial or operational strength and/or low corporate rating/credit assessment of an issuer/servicer/parent; inadequate ability or lack of experience in servicing or operational ability; and inadequate financial, operational or performance data/information provided by the applicable party.

Credit Evaluation

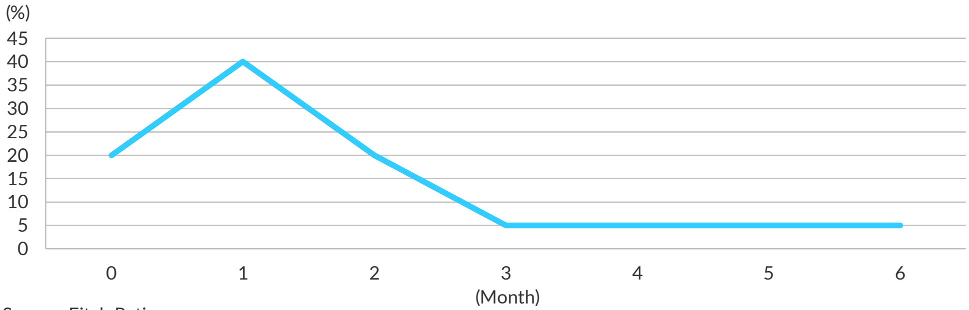
Under state law or regulations, a utility is typically required to provide service to all customers, regardless of the customers' creditworthiness. In some states with dramatic swings in temperature, utilities may be prohibited from disconnecting service during extremely hot or cold seasons. For these reasons, an important factor in a utility's assessment of its customers is the utility's requirement of additional security from riskier customers. If service cannot be denied, most utilities require a security deposit for new customers or those who pose a greater credit risk.

Forecasting

Since scheduled principal amortization is based on the utility's sales forecasts, it is important to assess the utility's forecasting ability and accuracy. Utilities generally maintain econometric models that relate historical values of energy variables to measures of the weather, economy and number of customers. Fitch reviews the utility's actual sales for prior periods relative to historical sales forecasts to determine the peak unfavorable forecast variance and the reasons for such variance for each customer class included in the securitization. These results are used in the cash flow stress scenarios, as outlined in the Cash Flow Modeling section and stress cases, starting on page 9.

Collections, Delinquencies and Chargeoffs

Sample Collection Curve — % of Billed Revenues Collected



Source: Fitch Ratings.

The utility is expected to have a well-established process for pursuing and collecting delinquencies. However, since customers consider electricity or gas for heating an essential service, historical chargeoff and delinquency rates for utilities tend to be relatively low, compared with other consumer assets. It is not unusual for utilities to experience 0.50% average chargeoffs for a 20-year period. An important factor in the evaluation is whether the delivery utility is able to disconnect service for nonpayment, even if a third-party energy provider is supplying power. In some states, the ability to disconnect may be delayed or prohibited in the case of a third-party supplier, resulting in higher delinquencies and chargeoffs.

Billing and Remittances

Typically, the special tariff is billed by the utility as a separate line item on the customer's bill, but, in some cases, it is bundled into a single aggregate charge and not specifically identified on the bill. The utility's billing systems are expected to be able to incorporate multiple components of billing information. As part of the rating process, Fitch reviews the utility's billing systems to determine whether they are adequately prepared to identify the special tariffs and track collections.

When the special tariff is billed and collected by the utility as servicer, along with other charges that belong to the utility, it is the responsibility of the utility as servicer to calculate the proportion of collections that belong to the SPV. Absent billing and remittance processing systems that permit the utility as servicer to identify the proportion of the bill payment by each individual consumer corresponding to the special tariff and remit the actual collections, most transactions use an alternate approach to allocate collections to the SPV.

A common alternative is the use of a collections curve to approximate the actual collections. A collections curve specifies the required percentage of each bill that must be remitted to the trust. The curve is calculated by the servicer based on an historical average percentage of bills collected by month, with percentages adjusted periodically based on updated collections experience.

Another method utilized to approximate actual collections is to remit estimated collections based on the utility's historical experience of the average number of days customers' bills remain outstanding. Similar to the collections curve method, the percentages of days outstanding are adjusted periodically to reflect more recent collections experience.

Self-Generation and Alternate Technologies

Because the special tariffs are assessed on energy delivery services, the market entrance of alternative energy providers is not expected to affect tariff receipts. However, in some jurisdictions, customers could potentially avoid payment of the special tariff by performing energy generation on site and disconnecting completely from the distribution grid in the case of electricity or switching to an alternate fuel in the case of natural gas.

Tariff bonds are subject to a potential risk if a substantial number of electric power consumers switch to existing or new technologies to generate power for their own use (called self-generation or autoproduction) or purchase power from a local source delivered without the use of the utility network. In aggregate, these decentralized sources are known as distributed generation. Based on data provided by utilities within the utility tariff/stranded cost ABS sector,

Servicer Checklist

- Forecasting methods and accuracy.
- Procedures for assessing customer credit.
- Collections process, notice and disconnection policy.
- Historical delinquency and chargeoff data.
- Billing systems.
- Procedures for coordinating with third-party energy providers (if applicable).
- Limitations on commingling of securitized tariffs.
- Requirements and fees for alternate servicers.

Fitch considers it unlikely that a significant portion of the customers will implement self-generation or distributed generation immediately or that alternative technologies will develop sufficiently within the next five to 10 years to allow for widespread disconnection from the utilities' grid.

Performance Analytics

After a rating has been assigned by Fitch, the ongoing monitoring of such rating is transitioned to a primary analyst. The analyst is responsible for collecting and analyzing relevant transaction data and presenting collected information to a rating committee, as described below. Although monitored upon receipt of a servicer certificate, each transaction is reviewed at least once annually. Fitch will review and resolve any identified potential data issues prior to proceeding with the analysis of that transaction. If data critical to the analysis are unavailable or determined to be insufficient, Fitch may consequently withdraw the related ratings.

Fitch expects to receive periodic servicer certificates, received at least annually, to be utilized in its review process. Servicer certificates and performance for every transaction are tracked on a quarterly or semiannual basis, depending on bond payment frequencies. Based on performance data, if bonds are not amortizing as expected or if capital or overcollateralization subaccounts are not at levels required by the transaction's documentation, an analyst will make inquiries with the issuer, possibly triggering an in-depth review. Transaction-specific performance is published on Fitch's surveillance website. Metrics such as bond amortization, collections and CE levels are tracked and available to investors.

Utilizing the data gathered from the servicer certificates and aggregated on Fitch's internal database, the analyst evaluates the various performance metrics listed above. These metrics are compared with initial expectations and industry/sector trends. Fitch will contact the servicer/issuer if additional detail is needed regarding performance changes within the transaction. Additional information requests may include further tariff detail, billing collections and color on consumption variance.

Furthermore, Fitch expects to receive data demonstrating the size of the tariff charge relative to the total customer bill to verify that the charge is not approaching threshold levels. To date, Fitch has not employed the use of its cash flow model as part of the review process, as other performance measures as described above are sufficient for Fitch's analysis. Given the effectiveness of the true-up mechanism in all Fitch-rated transactions, there have not been any negative rating actions taken in this sector. However, in a circumstance where the true-up does not provide adequate credit support, resulting in shortfalls in the subaccounts, significant changes in amortization and an increase in the tariff beyond the 20% threshold, a more in-depth review of the transaction would be completed.

The more in-depth review would include updated stress cash flow modeling scenarios. Updated consumption forecast are not included in the aforementioned servicer certificates. However, as part of the in-depth review, Fitch would expect to receive an updated consumption forecast from the utility. Consistent with the rating methodology for new transactions, Fitch would apply a 5.0x multiple to the absolute peak variance for each customer class and the peak net loss/chargeoffs in its cash flow model. Additionally, the incorporation of all the 'AAAsf' stresses detailed on pages 9-13 would also be included. The goal of this analysis is to evaluate the impact on the peak special tariff as a percentage of the residential customer bill.

A tariff in excess of 20% would not be consistent with a 'AAAsf' rating. In circumstances where the tariff is in excess of 20%, utilizing the 5.0x multiple on the variance and net loss/chargeoff assumptions would suggest a potential for negative rating action. As such, Fitch would incorporate lower multiples for lower rating categories in its cash flow modeling scenarios. The rating multiples applied would be 4.0x, 3.0x and 2.0x for 'AAsf', 'Asf' and 'BBBsf', respectively. For example, if under a 4.0x multiple on the variance and net loss/chargeoff assumptions resulted in the peak tariff falling below the 20% threshold, the transaction would be considered for a downgrade to 'AAsf' from 'AAAsf'. Of note, the above referenced multiples only apply to the review of existing transactions that are performing materially outside of expectations. Fitch has only assigned 'AAAsf' ratings within the sector for new issuances and the assumptions detailed herein are considered 'AAAsf' only assumptions. Counterparties to an outstanding transaction, such as servicers, trustees and derivative providers, can affect the cash flow, liquidity and performance of the transaction. Consistent with the initial review, Fitch reviews all transaction counterparties during a subsequent review to determine whether they continue to meet Fitch's criteria. Furthermore, analysts receive notice of all rating actions taken on counterparty ratings on a daily basis, as the downgrade of a transaction counterparty below a certain threshold will trigger a subsequent review, regardless of the performance of the transaction to date. Details of Fitch's counterparty criteria can be found in "Structured Finance and Covered Bonds Counterparty Rating Criteria."

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Criteria Limitations

Ratings, including Rating Watches and Outlooks assigned by Fitch, are subject to the limitations specified in Fitch's Ratings Definitions page at www.fitchratings.com.

Appendix: Additional Legal Considerations

Fitch's analysis of the legal risks in tariff bond transactions is comparable to its analysis of other structured finance transactions. For more detail on considerations related to the analysis of structured finance transactions, see Fitch Research on "Global Structured Finance Rating Criteria." There are also some unique aspects to the analysis of utility tariff/stranded cost/stranded cost transactions and, therefore, Fitch also considers:

- enforceability and constitutionality of the statute/order/pledge;
- the rights of and effect on bondholders upon an action seeking to impair the rights established pursuant to the statute/order and transaction documents under the U.S. Constitution and the relevant state constitution;
- the severability of the provisions of the statute/order; and
- the ability of citizens of the relevant state to seek to amend or repeal the statute/order and the likelihood of success.

KGS EXHIBIT CNA-5

State of Hawaii Department of Business, Economic Development and Tourism Green Energy Market Securitization Bonds 2014 Series A

Utility Tariff/Stranded Cost Bonds Asset-Backed Securities

Presale Report

Inside This Report

Related Presale Appendix

State of Hawaii Department of Business, Economic Development and Tourism Green Energy Market Securitization Bonds 2014 Series A (October 2014)

Related Criteria

Rating Criteria for U.S. Utility Tariff Bonds (December 2013)

Global Structured Finance Rating Criteria (August 2014)

Counterparty Criteria for Structured Finance and Covered Bonds (May 2014)

Criteria for Servicing Continuity Risk in Structured Finance (July 2014)

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Capital Structure

Tranche	Expected Rating	Expected Outlook	Size (%)	Amount ($Mil.)	Expected Interest Rate (%)	Legal Final Maturity
A-1	AAAsf	Stable	33.33	50.00	TBD	7/1/22
A-2	AAAsf	Stable	66.67	100.00	TBD	1/1/31
Total			**100.00**	**150.00**		

Expected ratings do not reflect final ratings and are based on information provided by the issuer as of Oct. 28, 2014. These expected ratings are contingent on final documents conforming to information already received. Ratings are not a recommendation to buy, sell or hold any security. The prospectus, prospectus supplement and other material should be reviewed prior to any purchase. Note: Tranche thickness metrics do not apply to utility tariff transactions. TBD – To be determined.

Transaction Summary

Fitch Ratings expects to rate the State of Hawaii Department of Business, Economic Development and Tourism Green Energy Market Securitization Bonds 2014 Series A (GEMS) as listed above. The bonds are being issued by the state of Hawaii (the issuer), acting through the Department of Business, Economic Development and Tourism (DBEDT, or the department). The property consists of the right to bill, collect and adjust a nonbypassable fee (green infrastructure fee [GIF]) on all existing and future electric utility customers of Hawaiian Electric Company, Inc. (HECO).

Key Rating Drivers

Statutory and Regulatory Framework: The strength and stability of the underlying GIFs are established by the financing order issued by the state as part of Act 211. The financing order establishes the irrevocable and nonbypassable GIFs and defines bondholders' property rights in the green infrastructure property. The financing order contains the key elements important in a utility tariff/stranded cost securitization.

Adequate Credit Enhancement via True-Ups: Mandatory, semiannual true-up filing to adjust the GIFs to ensure collections is sufficient to provide all scheduled payments of principal and interest, pay fees and expenses and replenish the debt service reserve account (0.50%). Furthermore, optional interim true-ups and quarterly true-ups may occur, if necessary, to make all timely payments.

Supports 'AAAsf' Stresses: Customer count changes can be impacted by various factors, such as demographic shifts in total population, income, unemployment rates, mortality rates, fertility rates and net migration. These factors present greater risk in this transaction relative to others in this asset class, given the longer tenor of the GEMS bonds. Fitch's 'AAAsf' scenario analysis stresses key model variables, such as customer count variance, chargeoff rates and delinquencies, to address this risk.

Sound Legal Structure: Fitch reviews all associated legal opinions furnished to analyze the integrity of the legal structure *(refer to the Legal Structure and Analysis section on page 8 for further detail related to the legislation).*

Transaction Comparison

	State of Hawaii Department of Business, Economic Development and Tourism Green Energy Market Securitization Bonds 2014 Series A	Utility Debt Securitization Authority Restructuring Bonds Series 2013T and Series 2013TE	FirstEnergy Ohio PIRB Special Purpose Trust 2013
Closing Date	11/13/14[a]	12/18/13	6/20/13
Note Balances ($ Mil.)			
Class A-1	50.00	Class T-1 to T-4 (482.93)	111.97
Class A-2	100.00	Class TE-1 to TE-17 (1,539.42)	70.47
Class A-3	N.A.	N.A.	262.48
Aggregate Balance	150.00	2,022.35	444.92
Interest Rate (%)[b]			
Class A-1	1.50	Class T-1 to T-4 (2.86)	0.68
Class A-2	3.77	Class TE-1 to TE-17 (5.00%)	1.73
Class A-3	N.A.	N.A.	3.45
Expected Maturity (Years)	6	26	21
Legal Final Maturity(Years)	15	28	23
Initial Tariff Charge (Cents/kWh)	1.41[d]	1.26	— The Cleveland Illuminating Company (0.3920) Ohio Edison Company (0.3308) The Toledo Edison Company (0.0253)
Initial Tariff Charge (% of Residential Bill)	0.86[e]	6.75	— The Cleveland Illuminating Company (3.07) Ohio Edison Company (2.54) The Toledo Edison Company (0.19)
Initial Customer Class Allocation Factors (%)			
Residential	45	—	Residential (63.61)
Commercial	55% on Pro-Rata Basis between Small, Medium and Large Commercial and Street Lighting	—	Commercial and Small Industrial (18.29)
Street Lighting		—	Large Industrial (17.73)
Other		—	Other (0.38)
Capital Subaccount (%)	0.50	0.50	0.50/1.75
Fitch Ratings			
Class A-1	AAAsf (Rating Outlook Stable)[c]	AAAsf (Rating Outlook Stable)	AAAsf (Rating Outlook Stable)
Class A-2	AAAsf (Rating Outlook Stable)[c]	AAAsf (Rating Outlook Stable)	AAAsf (Rating Outlook Stable)
Class A-3	N.A.	AAAsf (Rating Outlook Stable)	AAAsf (Rating Outlook Stable)

[a]Subject to change. [b]Per annum. [c]Expected. [d]Estimated charge provided by HECO. [e]Based on estimated annual average residential bills provided by HECO. N.A. – Not applicable.

Transaction Parties

Role	Name	Fitch Rating
Issuing Entity	State of Hawaii Department of Business, Economic Development and Tourism (DBEDT)	NR
Issuer	DBEDT	NR
Master Servicer/Seller/Parent Company	Hawaiian Electric Company, Inc. (HECO)	BBB+/Stable
Seller/Subsidiary	Hawaii Electric Light Company, Inc. (HELCO)	BBB+/Stable
Seller/Subsidiary	Maui Electric Company, Limited (MECO)	BBB+/Stable
Indenture Trustee	U.S. Bank, National Association	F1+/AA–/Stable
Lead Underwriter	Goldman Sachs, & Co.	F1/A/Stable

NR – Not rated.

Credit Analysis

The cash flow supporting the GEMS bonds is generated by payments from all electric customers in HEI's service area. Fitch reviewed the customer composition of HEI's service area to determine the size of the customer base (customer counts), chargeoffs, regional economic sensitivities and weather-related seasonality. Base case assumptions are derived based on this review. Unlike most utility tariff/stranded cost ABS transactions, the GEMS transaction incorporates a fixed, non-usage-based special tariff (GIF) allocated amongst customers of each electric utility. Furthermore, the GIF and true-up mechanism is sized off of forecast levels of customer counts versus forecast consumption levels.

Utilizing this methodology results in more level debt service relative to consumption-based structures. While this methodology may differ, Fitch's analysis and 'AAAsf' stress assumptions applied to the base case assumptions were consistent with its rating criteria. These stressed scenarios are incorporated in cash flow modeling scenarios described in the Cash Flow Analysis section on page 5.

As the U.S. economy continues to experience a slow recovery, any material negative shifts in this process could reverse historical performance trends; the highest absolute customer count variance and chargeoffs were utilized as base assumptions. Consistent with Fitch's 'AAAsf' stress scenario, the base case assumptions were stressed by a 5.0x multiple. Fitch believes the 'AAAsf' stresses account for potential asset deterioration from future weakness in the U.S. economy. See Fitch Research on "United States of America," dated September 2014, available on Fitch's website at www.fitchratings.com, which was used to evaluate the implications of current economic conditions.

Criteria Application

Fitch's credit and legal analysis, modeling assumptions and cash flow results for the transaction's expected ratings are consistent with its existing utility tariff criteria (*for more information, see Fitch Research on "Rating Criteria for U.S. Utility Tariff Bonds," dated December 2013*).

Data Adequacy

Customer count forecast data provided by HECO were used in Fitch's analysis. Forecasts are prepared using data based on income, unemployment rates, income levels, mortality rates, fertility rates, net migration and tourism levels. HECO provided Fitch with 10 years of forecast customer count data from 2004–2013 for residential, small commercial, medium commercial, large commercial and street lighting customers. These data were provided by each of the three service providers. In addition, HECO provided annual writeoff, delinquency and days outstanding (DSO) data for each utility dating back to 2004.

The data Fitch received from HECO were deemed adequate, and, thus, no adjustments were applied to Fitch's analysis. A portion of the data provided by the issuer and transaction sponsor was audited by an internationally recognized accounting firm. The audited data will be included in the offering memorandum. Fitch compared customer count forecast and gross and net chargeoff data provided in the offering memorandum. Fitch believes the base case variance forecast and chargeoffs derived utilizing this customer count and chargeoff data are reasonable, compared with the data provided in the offering memorandum, and, as such, no adjustments were made to Fitch's analysis.

Additionally, Fitch relied on detailed stratifications of the collateral pool to ascertain the characteristics of the pool that could impact transaction performance. The stratifications provided by the issuer and transaction sponsor that are also in the prospectus supplement will be audited by an internationally recognized accounting firm. Fitch compared the two sets of data and found the stratifications provided in the offering memorandum to be substantively the same as those provided to Fitch. As such, no adjustments were made to Fitch's analysis.

Model

Fitch utilized a proprietary internal cash flow model, which is customized to reflect the payment structure of the transaction and tests the impact of stressing various assumptions, including historical writeoff and customer count variance patterns. The output of the cash flow model is reviewed to verify that the rated bonds are fully paid under each stress scenario.

Cash Flow Analysis

Fitch integrates the primary asset- and liability-side data presented in the underwriter model into its own, internal, utility tariff bond cash flow model. The assumptions embedded in the Fitch cash flow model are customized to reflect the terms outlined in the financing order and other transaction documents. Such an approach provides Fitch with a consistent basis for comparison across different utility tariff transactions and the flexibility to layer on additional stress parameters, if any, not already factored in underwriter models. While the cash flow model is taken into consideration in determining the final rating, ratings are ultimately assigned by a Fitch credit committee, which takes into consideration both quantitative and qualitative factors.

Fitch's methodology focuses on applying an absolute variance percentage to collections of the GIF cash flows. For the purposes of this transaction, Fitch has applied variance percentages separately to forecast customer counts of each customer class. As detailed in the financing order, the GEMS transaction incorporates a fixed non-usage-based special tariff allocated amongst customers of each electric utility. The financing cost will be allocated 45% to residential customers and the remaining 55% to the nonresidential class. The nonresidential class is further segmented into subclasses defined as small commercial, medium commercial, large commercial and street lighting. The nonresidential allocation factor will remain fixed at 55%, unless any of the subclasses of customer counts declines by more than 50%. In such an event, the loss of each incremental customer of each subclass will result in the reallocation of costs, pro rata, to the remaining subclasses. Effectively, material declines in customer count within the nonresidential customer base will not impact the GIF on the residential customer class.

Additionally, the true-up mechanism is sized off of the forecast level of customer counts versus forecast consumption levels. Utilizing this methodology results in more stable debt service relative to consumption-based structures. While this methodology may differ from that of typical utility tariff/stranded cost ABS transactions, Fitch's analysis and 'AAAsf' stress assumptions applied to the base case assumptions were consistent with its rating criteria. Risk factors include economic recession, demographic shifts (including population, income, unemployment rates and net migration) and errors in forecasting customer counts.

The ability of the transaction to withstand significant stresses demonstrates the effectiveness of the true-up mechanism. However, another key consideration is an evaluation of the resulting GIF in relation to the total customer bill. Fitch believes that if the GIF becomes a significant portion of the total bill, the incentive to find ways to bypass the system and avoid the charge increases. For this transaction, GIFs charged to residential customers should remain stable over the life of the transaction.

Base Case

Fitch's criteria assume that special tariffs (under all scenarios) in excess of 20% of the residential customer's bill over a long financing term would be inconsistent with a 'AAAsf' rating. The initial charge would represent approximately 0.86% of the total residential bills. The historical customer count variance has been relatively stable; therefore, the GIF as a percentage of a residential customer's bill is generally stable.

The base case cash flow projection utilizes the forecast of customer counts from the service providers and assumes that collections and losses are consistent with historical experience. Over the term of the bonds, the GIF charged to customers is expected to remain mostly stable for customers across the three service providers.

'AAAsf' Stress Case

Fitch's 'AAAsf' stress case stresses several model variables, each of which is meant to incorporate multiple risk factors resulting in a reduction in cash flow below projections. The base customer count forecast errors for residential, small commercial, medium commercial, large commercial and street lighting customers are 8.77%, 11.47%, 17.90%, 18.20% and 62.40%, respectively. The forecast errors represent 5.0x the historical, 10-year-peak, absolute-value forecast customer count variance for each customer class between 2004 and 2013.

For the residential, small commercial, medium commercial, large commercial and street lighting customers, these base errors were applied to the first year and increased 1% annually thereafter for the first 10 years, then by 1.5% for the next five years and 2% thereafter. This resulted in forecast errors in year 16 of 27.27%, 29.97%, 36.40%, 36.70 and 80.90%, respectively. The stress levels are a proxy for uncertainty associated with event risks. In applying these variances, Fitch also assumes HECO's forecast customer count is at base case levels for each customer class for two years before correctly reforecasting for the stressed customer count levels.

To address collection risk and the possible risk of default by the utilities, Fitch also assumed that 100% of billings in the peak one month of revenue (August) in each year are charged off, with no recovery. In addition, the successor servicing fee was modeled at the maximum 0.75% of the initial principal amount of the bonds.

Fitch also applied a multiple of 5.0x to the historical 10-year-peak chargeoffs. HECO was unable to provide chargeoff data segmented by the five customer classes for each of the utilities. Therefore, Fitch's 'AAAsf' net chargeoff assumption was based on the weighted average peak chargeoff on the utilities' aggregate portfolios. This resulted in net chargeoffs of 1.20% (0.24% times 5.0) for each customer class. To model delinquencies, the collection curve is lengthened such that 50% of collections for billed amounts are subject to a 30-day delay for two months, with receipt of remaining collections occurring in month four after the billing date. True-ups were assumed to occur on a semiannual basis.

While the application of 'AAAsf' stress assumptions resulted in slight fluctuation of GIFs through the life of the transaction, the overall collections were sufficient to repay the bonds in full prior to the legal final maturity date. This slight fluctuation in GIFs was the result of the implementation of the true-up mechanism to make up collection shortfalls to ensure required payments were met at the next payment date. Notably, the fluctuations in the tariff for the GEMS transaction are significantly less than those of other utility tariff/stranded cost transactions. The key driver for the relatively stable tariff is due to the fixed allocation factors and use of customer counts versus consumption in determining the tariff amount.

In Fitch's analysis, due to the aforementioned methodology and assumptions, the highest GIF amount represented approximately 1.56% of the total rate charged to residential customers, which occurs in the second to last year of the transaction's life. Furthermore, consistent with the state goals in the legislation, Fitch's analysis herein assumes the 30% decline in electric energy consumption is achieved and applied to the average customer bill. This resulted in a lower average bill size for the residential customer and a more conservative GIF as a percentage of the average residential customer bill.

Commercial Stress Case

HEI does not have any industrial customers within its service area. In aggregate, the residential class represents approximately 87% of total customer counts. The remaining 13% are nonresidential customers, with the small commercial class totaling approximately 10%. Typically, Fitch would apply a "no industrial" stress to address concentration risk and risk related to co-generation from large industrial customers. However, due to the fixed allocation factors, any material declines in customer counts for the nonresidential class would not impact the GIF amount on the residential customer class. During a true-up period, the GIF on the nonresidential class would be adjusted on a pro-rata basis to account for any material declines in customer counts. For all scenarios described above, the GIF as a percentage of the total rate charged to residential customers was calculated using the estimated annual average residential bills provided by HECO.

Credit Enhancement

The primary form of CE is the true-up mechanism.

As established in the financing order, the primary source of credit enhancement (CE) is the true-up mechanism. The true-up mechanism requires that the charges are to be reviewed and adjusted semiannually (semiannual true-up) to correct for any overcollections or undercollections of charges during the preceding six months and to provide for the expected recovery of GIFs sufficient to provide all payments of principal and interest and all ongoing financing costs, as well as to replenish the debt service reserve subaccount in connection with the bonds.

In addition to the semiannual true-ups, the financing order allows for true-ups on an interim basis (optional true-up) at any time without limit if the master service provider determines that forecasts of GIF collections will be insufficient to make all payments of principal and interest and ongoing financing costs during the current or next succeeding payment period. Furthermore, if any bonds are outstanding following the last scheduled maturity date of the bonds or any series, the master service provider is also required to make true-up adjustments quarterly to ensure timely payments.

The master service provider (HECO) is responsible for calculating and making the necessary true-up adjustments in accordance with terms of the servicing agreement. For each adjustment, DBEBT and HECO will file a notice of adjustment with the commission (PUC). This notice will include a description of the adjustment calculation, the mathematical formulas used for such calculations and the amounts of each variable used in the formulas. Pursuant to the financing order, PUC will review and confirm the accuracy of the true-up calculations.

A debt service reserve subaccount equal to 0.50% of the original principal amount of the bonds will be established at closing. A surplus revenue subaccount for the issuer will also be established, which will be funded with excess funds, to the extent available, through the term of the transaction. True-ups will be calculated to utilize and eliminate any deposits in the surplus revenue subaccount.

Both the debt service reserve and surplus revenue subaccounts will be available to fund payment shortfalls. On any payment date, if funds in the general subaccount are insufficient to meet payments of fees, expenses, interest or principal, the trustee will draw first from the excess funds subaccount and then from the reserve subaccount.

Transaction and Legal Structure

Interest Allocation

Interest is payable on a semiannual basis on each payment date. Interest will be calculated on a 30/360 day basis.

Principal Allocation

Principal payments on each class of bonds will be made in accordance with an expected amortization schedule to reduce the principal balance to the amount specified in the amortization schedule for that payment date, but not below that amount. The bonds will pay principal according to the amortization level. Rather, receipts of any excess of the amounts necessary to amortize the bonds according to the amortization schedule will be used to fund deficiencies in the debt service reserve subaccount and will be allocated to the surplus revenue subaccount. Amounts in the surplus revenue subaccount will be taken into consideration in calculating the next true-up adjustment.

Priority of Payments

GIFs are applied semiannually, in the following order of priority:

1) To the trustee for fees, expenses and indemnity amount not in excess of $50,000 in each calendar year.
2) To the servicer providers of the servicing fee (each $2,729/year) or 0.75% for the successor service provider not affliated with HECO.
3) Payment of all other ongoing operating and financing costs.
4) Interest on the bonds and any past due interest.
5) Any principal then required to be paid on the bonds as a result of acceleration upon an event of default or at final maturity.
6) Any principal then scheduled to be paid on the bonds in accordance with the expected amortization schedule.

7) All outstanding operating costs paid pro rata.
8) To replenish any amount drawn from the debt service revenue subaccount.
9) Any remittance excess, to the service providers, paid pro rata.
10) Allocation of the remainder, if any, to the surplus revenue subaccount.
11) Upon full payment of principal and interest on the bonds and all operating costs, any excess balance to be paid to DBEDT for disbursement to PUC.

Events of Default

To protect bondholders from issuer insolvency or deterioration in receivables quality, the trust includes several events of default. The events of default under the Indenture are:

- Failure to pay interest when due, which continues for five business days.
- Failure to pay principal of any tranche of a bond on the final maturity date of such tranche.
- Any act for failure by the state or any of its agencies (including DBEDT and PUC), officers or employees that violates the financing order or the state pledge.
- A breach by the state of representations or covenants that has not been cured within 90 days.
- Failure of the state to file a true-up.
- Failure by the state to fulfill any obligations under the indenture.

If a bond event of default should occur and is continuing, the trustee or holders may declare all the bonds to be immediately due and payable. All the principal payments on the bonds, together with accrued and unpaid interest thereon, shall become immediately due and payable.

Legal Structure and Analysis

The issuer is the State of Hawaii Department of Business, Economic Development and Tourism (DBEDT). DBEDT is a division of the state of Hawaii, which is legally considered a bankruptcy-remote entity. As such, the proposed transaction structure will not include an SPV. The issuer is not permitted to be a debtor under Chapter 9 or any other provision of the bankruptcy code. The issuer will purchase and own the green infrastructure property (the property) to issue the bonds, which are to be secured by the property, and perform any activity incidental thereto. The bonds are special and limited obligations of the state payable from the green infrastructure property (the property).

The property consists of the right to bill, collect and adjust a nonbypassable fee (GIF) on all existing and future electric utility customers of Hawaiian Electric Company, Inc. (HECO), Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO; collectively, the service providers [utilities]). HECO, a subsidiary of Hawaiian Electric Industries, Inc. (HEI), is the master service provider (servicer) for the transaction. HELCO and MECO are subsidiaries of HECO. The bonds do not constitute a general or moral obligation of the state of Hawaii, and the full faith and credit of the state is not pledged to the payment of principal or interest on the bonds.

DBEDT serves as an advocate for clean energy development, a resource for analytical data and a facilitator for business development for Hawaii. By statute, the director of DBEDT is the state energy resource coordinator who oversees the State Energy Office, a division of DBEDT. The office is charged with planning and coordinating the state’s energy policy in cooperation with PUC, local energy companies and other stakeholders.

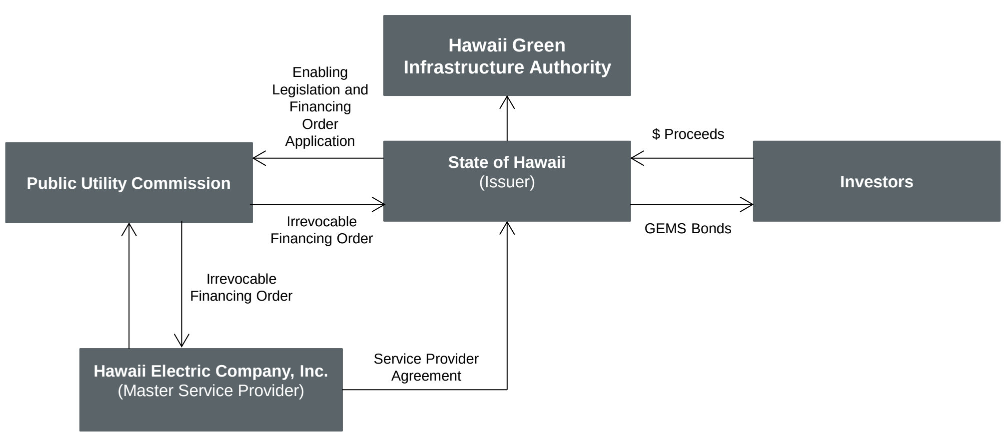
The state has been pursuing a wide range of initiatives designed to reduce energy costs, price volatility and reliance on fossil fuels for electricity generation. In 2008, the state enacted Act 155, Session Laws of Hawaii 2009 (the State Renewable Portfolio Standards codified as HRS § 269-92 and EEPS codified as HRS § 269-96), which set forth a 70% clean energy goal to be achieved by 2030, requiring the reduction of electrical energy consumption by 30% under EEPS and the increase in electrical generation from renewable resources to 40% under the Renewable Portfolio Standards. An energy agreement was signed between the Hawaiian Electric Companies and the state to accelerate meeting these objectives.

On April 30, 2013, the Hawaii Legislature enacted, and, on June 27, 2013, the governor signed into law, Act 211, Session Laws of Hawaii 2013 (the act). The act authorized the establishment of a green infrastructure financing program (the Hawaii Green Infrastructure Loan Program, or the loan program) administered by the state to make renewable energy improvements more accessible and affordable to Hawaii ratepayers. The initial deployment of the program is expected to target underserved homeowners, renters and nonprofits. Ultimately, GEMS has the potential to finance a wider set of clean energy infrastructure projects, such as grid modernization, renewable energy generation and energy-efficiency projects. The bonds will be issued pursuant to Article VII, Section 12 of the Constitution of the State of Hawaii and Part III, Chapter 39 of the Hawaii Revised Statutes (HRS), as amended (collectively, the Revenue Bond Law). The financing order issued by the commission on Sept. 4, 2014 will become irrevocable on Nov. 3, 2014. Proceeds from the issuance of GEMS will be used to finance the loan program. The act authorizes the commission to adopt a financing order approving the issuance of the GEMS bonds.

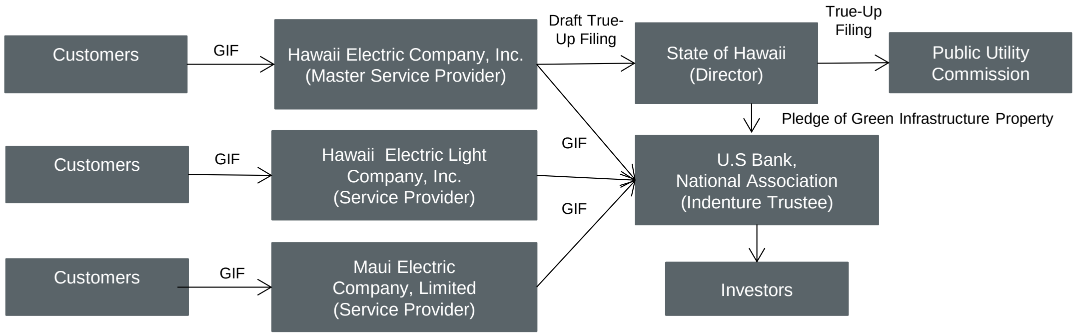
The financing order was approved and adopted on Sept. 4, 2014 and is expected to become irrevocable, final and non-appealable on Nov. 3, 2014. The financing order allows for the:

- The creation of the property.
- The sale of the green infrastructure property to the issuer.
- The imposition, billing and collection of the GIFs.
- The issuance and sale of up to $150 million in bonds.
- The use of proceeds from the issuance to pay upfront financing costs and the purchase price of the property.
- Approval of the true-up adjustment calculation.
- Approval of the provisions for the nonbypassability of the GIF.
- The order and the execution of the service provider agreement between DBEDT and the service providers.
- Use of proceeds to fund the loan program.

Initial Transaction Structure



Ongoing Securitization Cash Flows



Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax, and/or structuring advice from Fitch and should not be used or interpreted as legal, tax, and/or structuring advice from Fitch. Should readers of this report need legal, tax, and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

Customer Service Territory

HECO is an integrated, investor-owned electric utility providing electricity to approximately 450,000 retail customers in Hawaii. Approximately two-thirds of its customers are based in Oahu. Through subsidiaries (MECO) with operations in Maui, Molokai and Lanai, and HELCO serving the island of Hawaii, HECO provides electricity to more than 95% of Hawaii.

HECO's customer base consists of five customer classes — residential, small commercial, medium commercial, large commercial and street lighting. Collectively, the largest customer class by customer count is the residential class, which accounted

HECO Customer Service Territory (Aggregate)

(Dec. 31, 2013)

Customer Breakdown	Customer Count	% of Total Customer Count
Residential	394,910	87.42
Small Commercial	44,850	9.93
Medium Commercial	10,537	2.33
Large Commercial	556	0.12
Street Lighting	889	0.20
Total	**451,742**	**100.00**

HECO Customer Service Territory

(Dec. 31, 2013)

Customer Breakdown	Customer Count	% of Total Customer Count
Residential	265,772	88.73
Small Commercial	25,653	8.56
Medium Commercial	7,334	2.45
Large Commercial	344	0.11
Street Lighting	425	0.14
Total	**299,528**	**100.00**

for approximately 87%, 89% and 85% of total customer count for HECO, HELCO and MECO, respectively, in 2013. Small commercial represents the second largest customer class, ranging from 8.5%–13.0% across the three service providers. Dating back to 2003, the customer class concentrations have remained relatively stable. Consistent with the methodology detailed in the financing order, the same RC will be charged to all customer classes.

HELCO Customer Service Territory

(Dec. 31, 2013)

Customer Breakdown	Customer Count	% of Total Customer Count
Residential	69,719	84.37
Small Commercial	10,884	13.17
Medium Commercial	1,699	2.06
Large Commercial	79	0.10
Street Lighting	256	0.31
Total	**82,637**	**100.00**

MECO Customer Service Territory

(Dec. 31, 2013)

Customer Breakdown	Customer Count	% of Total Customer Count
Residential	59,419	85.40
Small Commercial	8,313	11.95
Medium Commercial	1,504	2.16
Large Commercial	133	0.19
Street Lighting	208	0.30
Total	**69,577**	**100.00**

Collections Experience

Due to the essential nature of electric service, historical writeoff and delinquency rates are generally low. Dating back to 2006, the number of days on average that customers took to pay invoices as calculated by the average days sales outstanding (DSO) was 21.17, 23.93, and 20.19 days for HECO, HELCO and MECO, respectively. For each, the peak DSO experienced was 23.24 (in 2013), 28.71 (in 2013) and 21.45 days (in 2012). Similarly, historical net chargeoffs have also been low dating back to 2004, with historical highs of 0.18%, 0.39% and 0.23% reached in 2009 for HECO, HELCO and MECO, respectively.

Historical Days Sales Outstanding

(Average Days Sales Outstanding)

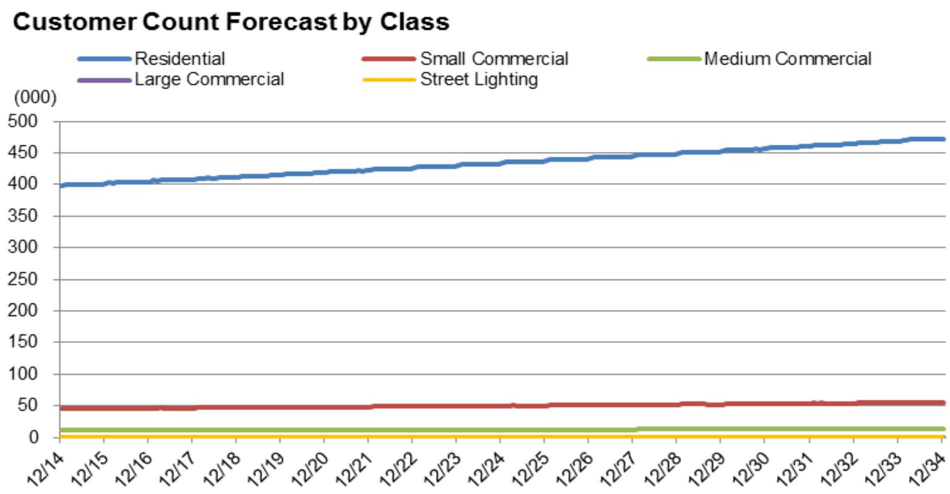
	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06
HECO	23.17	22.65	19.82	19.67	19.81	20.75	21.99	21.50
HELCO	28.71	26.40	21.43	21.47	24.09	23.69	23.13	22.55
MECO	21.10	21.45	20.03	19.72	20.05	19.98	19.61	19.94

Net Chargeoff Experience (Annual Average)

	For the Year Ended Dec. 31,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Hawaiian Electric										
Gross Chargeoffs ($)	88,847	75,353	122,926	131,099	313,205	180,165	135,911	249,780	202,451	287,555
Net Chargeoffs ($)	44,505	30,320	83,282	88,984	263,650	122,487	34,012	154,473	131,646	224,594
Net Chargeoffs as % of Revenue	0.07	0.04	0.06	0.09	0.08	0.18	0.06	0.03	0.11	0.08
Hawaii Electric Light										
Gross Chargeoffs ($)	48,933	50,436	64,959	74,340	143,863	146,488	66,636	71,573	93,308	110,525
Net Chargeoffs ($)	28,929	27,023	36,080	45,395	95,932	113,384	34,938	35,772	74,977	80,360
Net Chargeoffs as % of Revenue	0.15	0.11	0.13	0.15	0.26	0.39	0.11	0.10	0.21	0.23
Maui Electric										
Gross Chargeoffs ($)	17,984	20,942	27,618	31,791	44,629	72,634	36,193	84,930	31,949	59,108
Net Chargeoffs ($)	7,408	12,736	16,740	18,183	30,689	57,494	22,204	77,640	28,379	(5,520)
Net Chargeoffs as % of Revenue	0.04	0.05	0.06	0.06	0.08	0.23	0.08	0.22	0.08	(0.02)

Customer Count Forecasting

For the next 20 years (tenure of the bonds), DBEDT and HECO expect total customer accounts across their service territories to increase by approximately 20%. By customer class, total growth is forecast to be approximately 19%, 22%, 26% and 19% for residential, small commercial, medium commercial and large commercial. Street lighting is expected to double in customer count by 2034. The forecasts were derived using various methods, including time series models, historical average rate of growth, historical number of customers, residential population projections and judgmental analysis. Additionally, a review of economic conditions is considered and may be incorporated into the forecasting methodology. DBEDT and HECO will apply similar methodology when calculating the true-ups for the GEMS transaction.



Securitization History

This issuance of bonds by DBEDT represents the first issuance of a utility tariff/stranded cost securitization by Hawaii and HECO.

Counterparty Risk

Commingling

From the closing date, each of the service providers (utilities) will be responsible for billing and collecting GIFs on their customers and transferring the funds to the collection account held by the trustee. As of October 2014, HECO and its subsidiary were rated 'BBB+/F2/Stable. The transaction documents require that the service providers (utilities), as a collection agent for the state, remit daily the expected GIFs into the collection account, which is consistent with Fitch's commingling criteria, given its ratings on the service providers.

The transaction also includes liquidity in the form of a 0.50% debt service reserve subaccount established by DBEDT that provides short-term liquidity. Furthermore, receipts of GIFs are required to be processed and remitted electronically to the collection account daily, mitigating concerns related to commingling of trust cash flow with other DBEDT cash flows. Additionally, the transaction's waterfall structure provides for interest to be paid, while principal amortization shortfalls are covered via the true-up mechanism. The true-up mechanism provides adequate supplementary CE, consistent with Fitch's counterparty criteria.

Performance Analytics

After a rating is assigned by Fitch, the ongoing monitoring of such rating is transitioned to Fitch's performance analytics (PA) team. Fitch's PA team is responsible for collecting and analyzing relevant transaction data and presenting collected information to a rating committee, as described below. Although monitored at each distribution period, each transaction is thoroughly reviewed at least once annually.

Fitch expects to receive periodic servicer reports for its review process. Servicer reports and the performance of the transaction are generally tracked on a semiannual basis but can vary, depending on bond payment frequency. Based on performance data, if bonds are not amortizing as expected or if capital or overcollateralization subaccounts are not at levels required by the transaction's documentation, an analyst from Fitch's PA team will make inquiries with the issuer, possibly triggering an in-depth review. Transaction-specific performance is published on Fitch's surveillance website. Metrics such as bond amortization, true-up amounts, collections and CE levels are tracked and made available to investors.

Utilizing the data gathered from the servicer reports and aggregated on Fitch's internal database, the PA analyst evaluates the various performance metrics listed above, as well as microeconomic and macroeconomic issues affecting the issuer. These metrics are compared with initial expectations and industry/sector trends. Fitch will contact the servicer/issuer if additional detail is needed regarding performance changes within the transaction. Additional information requests may include further tariff detail, billing collections and color on consumption variance. Furthermore, Fitch expects to receive data demonstrating the size of the GIF relative to the total customer bill to verify that the charge is not approaching threshold levels. In general, Fitch does not employ the use of its cash flow model as part of the review process, as other performance measures (as described above) are sufficient for Fitch's analysis.

The analysis and recommendations are then presented to a rating committee. A rating committee review will result in a rating action — upgrade, downgrade or affirmation — and a Rating Outlook or Rating Watch being assigned/reviewed. Fitch keeps investors informed about reviews and rating actions through its website at www.fitchratings.com. More information on Fitch's surveillance products is available on Fitch's website.

Rating Actions

All rating actions are determined by committee consensus. The committees are chaired by a Fitch managing director or senior director. Current performance data and Fitch criteria are used to evaluate the transactions and ratings.

Fitch expects its ratings to withstand some level of fluctuation in collateral performance without creating additional rating volatility. If Fitch's review shows that the transaction is not performing as expected, ratings will be placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and to indicate the likely direction of such change. Under Rating Watch, ratings are designated as Positive, indicating a potential upgrade; Negative, for a potential downgrade; or Evolving, if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

Rating Outlooks

As part of assigning ratings to a tariff bond transaction, Fitch also assigns Rating Outlooks for each tranche of bonds in the transaction. Rating Outlooks are intended to be forward looking and indicate the likely direction of any rating change over a 12−18 month period. Rating Outlooks may be Positive, Negative, Stable or, occasionally, Evolving. Rating Outlooks will be reviewed concurrently with the rating review for the transaction and published in conjunction with the long-term rating (short-term ratings are excluded from Rating Outlooks). Notes rated 'AAAsf' are assigned either a Stable or Negative Rating Outlook, since they cannot be assigned a higher rating.

Rating Sensitivity

Break-the-Bond Case

While Fitch believes that bondholders are protected from the various aforementioned risks based on the 'AAAsf' cash flow stress case, the break-the-bond case provides an alternative means by which to measure the potential effects of rapid, significant declines in power consumption while capping the residential GIF at 20% of the total residential customers' bill.

In this scenario, the structure is able to withstand a maximum consumption decline of approximately 97% in year one. This is the level of forecast energy consumption decline that would cause a default in required payments on bonds or cause the GIF to exceed 20% of the total residential customers' bill. Despite this severe decline in consumption, due to the true-up mechanism, GIFs are able to pay all debt service by the legal final maturity date.

Origination and Servicing

As detailed in the financing order, the issuer and HECO have entered into a service provider agreement that requires the service providers to perform the billing and collections related to the GIFs. Each service provider will be paid a servicing fee of $2,729 per annum. This fee will be adjusted to account for inflation during the tenure of the bonds. The servicing fee will be increased to a maximum of 0.75% per year of the aggregate initial principal balance of the bonds if a third-party successor service provider that is not affiliated with HECO assumes servicing responsibilities.

As service provider, each will be responsible for the management, servicing and administration of the green infrastructure property, pursuant to the financing order. Each service provider is responsible for obtaining meter reads, billing, collection and posting of all payments in respect of the green infrastructure property. Additionally, each is responsible for responding to inquiries by customers, or, if appropriate, forwarding such inquiries to DBEDT, delivering bills to customers, investigating and handling delinquencies, processing and depositing collections and making periodic remittances, as well as furnishing periodic reports to DBEDT and the trustee. HECO, as master service provider, is responsible for assisting DBEDT with the periodic calculation of the GIF and preparing filings for true-up adjustments on behalf of DBEDT, who is responsible for the submission to the PUC.

The initial application for service is strictly regulated by rate setting policies. Tariff Rule No. 3 (Application for Service and Changes in Equipment or Operations) requires each applicant for electric service to establish credit, in accordance with tariff Rule No. 5 (Establishment and Re-establishment of Credit). The application is merely a request for service and neither binds the utilities to serve, except under conditions and provisions of these tariff rules and rate schedules, nor binds the customer to take service for a period longer than the minimum requirements of the applicable rate schedule. A payment of a deposit shall be made if applicable and in accordance with tariff Rule No. 6 (Deposits). As a condition of service, each of the service providers reserves the right to request full payment at any location, within the service providers' service territory, to an applicant who is indebted to the utility for any service previously provided.

On application for service, the identification of all residential customers is verified through the use of a major credit-reporting bureau. The rating returned from the credit-reporting bureau includes a recommendation on requirement of security deposit, or if a waiver is acceptable. If the residential customer had a break in service, his/her past credit history with the service provider will take precedence over the credit-reporting bureau recommendation. In instances where nonresidential customers have not established satisfactory credit, a security deposit in the form of a cash deposit may be required. In lieu of the cash deposit, the nonresidential customer may have the option to provide a personal guaranty. The amount of security is normally the amount of a bill for two months.

All the service providers obtain actual readings of all their in-service customer meters. Each billing period, each service provider will make reasonable attempts to obtain accurate, actual readings of the energy and demand, if applicable, delivered for the billing period, except where the customer and the utility have agreed to other arrangements. Meter readings taken by electronic means shall be considered actual readings. The service providers maintain the accuracy of all installed metering equipment by regular testing and calibration, in accordance with recognized standards.

The service providers bill their customers monthly or at their option at other regular intervals. Bills rendered monthly typically cover a period of approximately 30 days. During 2013, each service provider distributed an average of approximately 22,600 bills per billing cycle (e.g. on each business day) to customers in each service provider's various customer categories. Unless otherwise specified, bills are payable upon receipt and may be paid by mail, automatic bill payment (ABP), in person at one of the utilities' bill payment offices or at other locations through an authorized collector or agent (e.g. Western Union, Speedpay, Checkfree or Walmart), or by electronic fund transfers (EFTs). The most common payment type is mail, which represents approximately 42% of total payments, followed by ABP at 29%. The remaining 29% is dispersed across the various other payment types.

A disconnection notice is sent if a past-due amount is not paid within the set period allotted based on the customer's risk class. The customer will face termination of service on or after the scheduled date of the termination if payment is not received. Once service is terminated, the customer may be required to pay the full outstanding balance, a re-connection fee and/or provide a security deposit.

In general, the service providers' collection processes begin when balances are unpaid for 10 days or more from the billing due date. At that time, the service providers engage in collection activities, including delinquency notice mailings, telephone calls and personal collection, ending with payment plans or electricity shutoff. They also use collection agencies and legal collection experts, as needed, to collect on balances owed by customers who no longer have active service. Collections of residential accounts are performed via system-generated notifications and phone files for outbound dialing. Termination notices are system-issued and if payment and/or satisfactory payment arrangements are not made, service to the customer may be terminated.

Unlike many other states, Hawaii does not have service termination moratoriums due to the generally consistent weather across the islands. Collections of nonresidential accounts are also pursued via system-issued notices and manual outbound calls. Accounts charged off are sent to a third-party collection agency, which then may list the chargeoff with the credit bureaus. The third-party collection agencies are under contract with the service providers. Approximately 90 days after the final bill due date, accounts with balances greater than $10 are financially written off, and balances less than $10 are fully written off to show a zero balance. Unless a customer is on a payment plan, accounts greater than $10 are forwarded electronically to one of three third-party collection agencies, which pursues collection for six years, unless there is a judgment or dispute.

Appendix A: Other Aspects

Green Infrastructure Property

Green infrastructure property means all the property, rights and interests, including the irrevocable right to bill and collect GIFs, established pursuant to the financing order.

Nonbypassability

GIFs are nonbypassable, meaning that customers must pay them, regardless of their electric-generation supplier and whether or not the distribution system is being operated by HECO and its subsidiaries or a successor.

Utility Successor

Any successor to HECO and its subsidiaries, subject to the financing order, shall perform and satisfy all obligations of HECO under the financing order.

Irrevocability

The financing order will be irrevocable when final, and the authority may not reduce, impair, postpone or terminate the GIF or green infrastructure property.

State Pledge

The state of Hawaii pledges to, and agrees with, bondholders, any assignee and any financing parties under the financing order that the state will not take or permit any action that impairs the value of the green infrastructure property.

True-Up Adjustment

DBEDT with the assistance of HECO, subject to a final financing order, shall file with PUC, at least semiannually, or if determined necessary by the master service provider, more frequently, to ensure that expected collections of GIFs are adequate to pay all scheduled payments of principal and interest on the bonds and all ongoing financing costs when due. The GIF is based on estimates of customer counts for each customer class and other mathematical factors detailed in the financing order. DBEDT must file with PUC approximately 15 days prior to the effective date of the adjustment.

Security Interest

A valid and binding security interest in the green infrastructure property and other collateral will be created, perfected and enforced to secure the repayment of the principal and interest on the bonds.

Appendix B: Transaction Overview

State of Hawaii Department of Business, Economic Development, and Tourism Green Energy Market Securitization Bonds 2014 Series A

U.S./ABS

Capital Structure

Class	Expected Ratings	Expected Rating Outlook	Size (%)	Size ($ Mil.)	CE (%)[a]	Expected Interest Rate (%)	PMT Freq.	Legal Final Maturity	ISIN/CUSIP
A-1	AAAsf	Stable	33.33	50.00	0.50	TBD	Semiannually	7/1/22	TBD
A-2	AAAsf	Stable	66.67	100.00	0.50	TBD	Semiannually	1/1/31	TBD
Total			**100.00**	**150.00**					

[a]Also provided via true-up mechanism. CE – Credit enhancement. PMT – Payment. TBD – To be determined.

Credit Enhancement
Debt Service Reserve Subaccount: 0.50%
True-Up: Mandatory Semiannually, Unlimited or Quarterly
Surplus Subaccount: Not Funded at Close

Key Information

Details:		**Parties:**	
Closing Date	Nov. 13, 2014 (Subject to Change)	**Issuer**	State of Hawaii Department of Business, Economic Development and Tourism
Country of Assets and Type	U.S./ABS	**Seller/Servicer**	Hawaiian Electric Company, Inc./Hawaii Electric Light Company, Inc./Maui Electric Light Company, Limited
Country of SPV	U.S.	**Master Service Provider**	Hawaiian Electric Company, Inc.
Analyst	Du Trieu +1 312 368-2091 Melvin Zhou +1 212 908-0403	**Indenture Trustee**	U.S. Bank, National Association
		Underwriters	Goldman Sachs & Co. and Citigroup
Performance Analyst	Eugene Kushnir +1 212 908-1830		

Key Rating Drivers

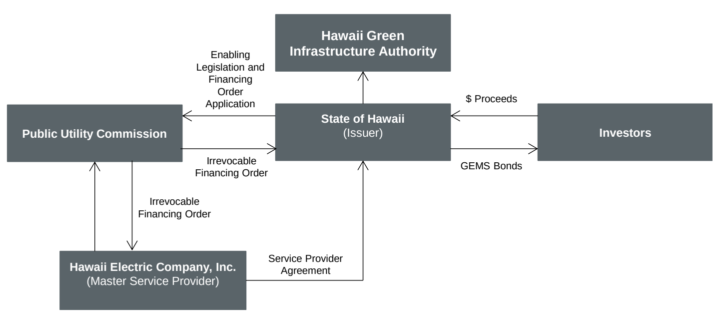
Statutory and Regulatory Framework: The strength and stability of the underlying GIFs are established by the financing order issued by the state as part of Act 211. The financing order establishes the irrevocable and nonbypassable GIFs and defines bondholders' property rights in the green infrastructure property. The financing order contains the key elements important in a utility tariff/stranded cost securitization.

Adequate Credit Enhancement via True-Ups: Mandatory, semiannual true-up filing to adjust the GIFs to ensure collections is sufficient to provide all scheduled payments of principal and interest, pay fees and expenses and replenish the debt service reserve account (0.50%). Furthermore, optional interim true-ups and quarterly true-ups may occur, if necessary, to make all timely payments.

Supports 'AAAsf' Stresses: Customer count changes can be impacted by various factors, such as demographic shifts in total population, income, unemployment rates, mortality rates, fertility rates and net migration. These factors present greater risk in this transaction relative to others in this asset class, given the longer tenor of the GEMS bonds. Fitch's 'AAAsf' scenario analysis stresses key model variables, such as customer count variance, chargeoff rates and delinquencies, to address this risk.

Sound Legal Structure: Fitch reviews all associated legal opinions furnished to analyze the integrity of the legal structure *(refer to the Legal Structure and Analysis section on page 8 for further detail related to the legislation).*

Initial Transaction Structure



The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

KGS EXHIBIT CNA-6

Monthly Period	Yearly Period	Regular Payment Date	Total Servicing and Other Fees	Class A-1 Note Note Balance	Class A-1 Note Note Principal	Class A-1 Note Note Interest	Class A-1 Note Note Cash Flow	Total Note Balance	Total Note Principal	Total Note Interest	Total Note Cash Flow
		Total:	2,992,500	Total:	380,000,000	24,713,030	404,713,030		380,000,000	24,713,030	404,713,030
0	0.0	1/1/2023	-	380,000,000	-	-	-	380,000,000	-	-	-
9	0.8	10/1/2023	427,500	328,482,353	51,517,647	6,298,500	57,816,147	328,482,353	51,517,647	6,298,500	57,816,147
15	1.3	4/1/2024	285,000	293,567,985	34,914,368	3,629,730	38,544,098	293,567,985	34,914,368	3,629,730	38,544,098
21	1.8	10/1/2024	285,000	258,267,813	35,300,172	3,243,926	38,544,098	258,267,813	35,300,172	3,243,926	38,544,098
27	2.3	4/1/2025	285,000	222,577,574	35,690,239	2,853,859	38,544,098	222,577,574	35,690,239	2,853,859	38,544,098
33	2.8	10/1/2025	285,000	186,492,958	36,084,616	2,459,482	38,544,098	186,492,958	36,084,616	2,459,482	38,544,098
39	3.3	4/1/2026	285,000	150,009,608	36,483,351	2,060,747	38,544,098	150,009,608	36,483,351	2,060,747	38,544,098
45	3.8	10/1/2026	285,000	113,123,116	36,886,492	1,657,606	38,544,098	113,123,116	36,886,492	1,657,606	38,544,098
51	4.3	4/1/2027	285,000	75,829,028	37,294,088	1,250,010	38,544,098	75,829,028	37,294,088	1,250,010	38,544,098
57	4.8	10/1/2027	285,000	38,122,841	37,706,187	837,911	38,544,098	38,122,841	37,706,187	837,911	38,544,098
63	5.3	4/1/2028	285,000	-	38,122,841	421,257	38,544,098	-	38,122,841	421,257	38,544,098

Monthly Period	Yearly Period	Regular Payment Date	Total Servicing and Other Fees	Class A-1 Note Note Balance	Class A-1 Note Note Principal	Class A-1 Note Note Interest	Class A-1 Note Note Cash Flow	Total Note Balance	Total Note Principal	Total Note Interest	Total Note Cash Flow
		Total:	4,132,500	Total:	380,000,000	35,471,735	415,471,735		380,000,000	35,471,735	415,471,735
0	0.0	1/1/2023	-	380,000,000	-	-	-	380,000,000	-	-	-
9	0.8	10/1/2023	427,500	343,689,165	36,310,835	6,669,000	42,979,835	343,689,165	36,310,835	6,669,000	42,979,835
15	1.3	4/1/2024	285,000	319,057,105	24,632,060	4,021,163	28,653,223	319,057,105	24,632,060	4,021,163	28,653,223
21	1.8	10/1/2024	285,000	294,136,851	24,920,255	3,732,968	28,653,223	294,136,851	24,920,255	3,732,968	28,653,223
27	2.3	4/1/2025	285,000	268,925,029	25,211,822	3,441,401	28,653,223	268,925,029	25,211,822	3,441,401	28,653,223
33	2.8	10/1/2025	285,000	243,418,228	25,506,800	3,146,423	28,653,223	243,418,228	25,506,800	3,146,423	28,653,223
39	3.3	4/1/2026	285,000	217,612,999	25,805,230	2,847,993	28,653,223	217,612,999	25,805,230	2,847,993	28,653,223
45	3.8	10/1/2026	285,000	191,505,847	26,107,151	2,546,072	28,653,223	191,505,847	26,107,151	2,546,072	28,653,223
51	4.3	4/1/2027	285,000	165,093,243	26,412,605	2,240,618	28,653,223	165,093,243	26,412,605	2,240,618	28,653,223
57	4.8	10/1/2027	285,000	138,371,611	26,721,632	1,931,591	28,653,223	138,371,611	26,721,632	1,931,591	28,653,223
63	5.3	4/1/2028	285,000	111,337,335	27,034,275	1,618,948	28,653,223	111,337,335	27,034,275	1,618,948	28,653,223
69	5.8	10/1/2028	285,000	83,986,759	27,350,576	1,302,647	28,653,223	83,986,759	27,350,576	1,302,647	28,653,223
75	6.3	4/1/2029	285,000	56,316,181	27,670,578	982,645	28,653,223	56,316,181	27,670,578	982,645	28,653,223
81	6.8	10/1/2029	285,000	28,321,857	27,994,324	658,899	28,653,223	28,321,857	27,994,324	658,899	28,653,223
87	7.3	4/1/2030	285,000	-	28,321,857	331,366	28,653,223	-	28,321,857	331,366	28,653,223

Monthly Period	Yearly Period	Regular Payment Date	Total Servicing and Other Fees	Class A-1 Note Note Balance	Class A-1 Note Note Principal	Class A-1 Note Note Interest	Class A-1 Note Note Cash Flow	Class A-2 Note Note Balance	Class A-2 Note Note Principal	Class A-2 Note Note Interest	Class A-2 Note Note Cash Flow	Total Note Balance	Total Note Principal	Total Note Interest	Total Note Cash Flow
		Total:	5,842,500	Total:	200,000,000	14,262,789	214,262,789		180,000,000	40,811,900	220,811,900		380,000,000	55,074,688	435,074,688
0	0.0	1/1/2023	-	200,000,000	-	-	-	180,000,000	-	-	-	380,000,000	-	-	-
9	0.8	10/1/2023	427,500	175,224,267	24,775,733	3,360,000	28,135,733	180,000,000	-	3,699,000	3,699,000	355,224,267	24,775,733	7,059,000	31,834,733
15	1.3	4/1/2024	285,000	158,429,623	16,794,644	1,962,512	18,757,156	180,000,000	-	2,466,000	2,466,000	338,429,623	16,794,644	4,428,512	21,223,156
21	1.8	10/1/2024	285,000	141,446,879	16,982,744	1,774,412	18,757,156	180,000,000	-	2,466,000	2,466,000	321,446,879	16,982,744	4,240,412	21,223,156
27	2.3	4/1/2025	285,000	124,273,929	17,172,950	1,584,205	18,757,156	180,000,000	-	2,466,000	2,466,000	304,273,929	17,172,950	4,050,205	21,223,156
33	2.8	10/1/2025	285,000	106,908,641	17,365,288	1,391,868	18,757,156	180,000,000	-	2,466,000	2,466,000	286,908,641	17,365,288	3,857,868	21,223,156
39	3.3	4/1/2026	285,000	89,348,862	17,559,779	1,197,377	18,757,156	180,000,000	-	2,466,000	2,466,000	269,348,862	17,559,779	3,663,377	21,223,156
45	3.8	10/1/2026	285,000	71,592,414	17,756,448	1,000,707	18,757,156	180,000,000	-	2,466,000	2,466,000	251,592,414	17,756,448	3,466,707	21,223,156
51	4.3	4/1/2027	285,000	53,637,094	17,955,320	801,835	18,757,156	180,000,000	-	2,466,000	2,466,000	233,637,094	17,955,320	3,267,835	21,223,156
57	4.8	10/1/2027	285,000	35,480,674	18,156,420	600,735	18,757,156	180,000,000	-	2,466,000	2,466,000	215,480,674	18,156,420	3,066,735	21,223,156
63	5.3	4/1/2028	285,000	17,120,902	18,359,772	397,384	18,757,156	180,000,000	-	2,466,000	2,466,000	197,120,902	18,359,772	2,863,384	21,223,156
69	5.8	10/1/2028	285,000	-	17,120,902	191,754	17,312,656	178,555,500	1,444,500	2,466,000	3,910,500	178,555,500	18,565,401	2,657,754	21,223,156
75	6.3	4/1/2029	285,000	-	-	-	-	159,778,555	18,776,945	2,446,210	21,223,156	159,778,555	18,776,945	2,446,210	21,223,156
81	6.8	10/1/2029	285,000	-	-	-	-	140,744,366	19,034,189	2,188,966	21,223,156	140,744,366	19,034,189	2,188,966	21,223,156
87	7.3	4/1/2030	285,000	-	-	-	-	121,449,408	19,294,958	1,928,198	21,223,156	121,449,408	19,294,958	1,928,198	21,223,156
93	7.8	10/1/2030	285,000	-	-	-	-	101,890,109	19,559,299	1,663,857	21,223,156	101,890,109	19,559,299	1,663,857	21,223,156
99	8.3	4/1/2031	285,000	-	-	-	-	82,062,848	19,827,261	1,395,894	21,223,156	82,062,848	19,827,261	1,395,894	21,223,156
105	8.8	10/1/2031	285,000	-	-	-	-	61,963,954	20,098,895	1,124,261	21,223,156	61,963,954	20,098,895	1,124,261	21,223,156
111	9.3	4/1/2032	285,000	-	-	-	-	41,589,704	20,374,249	848,906	21,223,156	41,589,704	20,374,249	848,906	21,223,156
117	9.8	10/1/2032	285,000	-	-	-	-	20,936,328	20,653,377	569,779	21,223,156	20,936,328	20,653,377	569,779	21,223,156
123	10.3	4/1/2033	285,000	-	-	-	-	-	20,936,328	286,828	21,223,156	-	20,936,328	286,828	21,223,156

VERIFICATION

STATE OF NEWYORK)
) ss.
COUNTY OF NEW YORK)

Charles N. Atkins II, being duly sworn upon his oath, deposes and states that he is Chief Executive Officer of Atkins Capital Strategies LLC; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Charles N. Atkins II

Subscribed and sworn to before me this 17th day of March 2022.

NOTARY PUBLIC

My appointment Expires:

11/04/2023

ANDREA MARTE
Notary Public - State of New York
No. 01MA6399942
Qualified in Bronx County
My Commission Expires Nov. 04, 2023