

3. Staff hereby files a corrected version of the R&R dated January 20, 2017. The corrected R&R states in footnote 1 that “Although the initial GSRS revenue requirement is \$863,520, the proposed surcharges, as shown on line 10 of Exhibit 2 of the Application, will ultimately allow Atmos to collect only \$800,928 of revenue annually.” Staff emphasizes that the

correction is minor and does not alter Staff's final recommendation of an increase to residential customer bills by \$.40 monthly or \$4.80 annually. Staff continues to recommend approval of the GSRS of Atmos, subject to the corrected R&R of January 20, 2017; specifically footnote 1.

WHEREFORE, Staff submits its corrected Report and Recommendation of January 20, 2017, for Commission review and consideration, and for such other relief as the Commission deems just and proper.

Respectfully submitted,

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**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Pat Apple
Commissioner Shari Feist Albrecht
Commissioner Jay Scott Emler

FROM: Tim Rehagen, Senior Auditor
Dennis Crupper, Pipeline Safety Engineer
Leo Haynos, Chief of Pipeline Safety
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: December 15, 2016
Corrected version filed January 20, 2017

SUBJECT: Docket No. 17-ATMG-141-TAR – In the Matter of the Application of Atmos Energy for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

EXECUTIVE SUMMARY:

Atmos Energy (Atmos) has filed an Application requesting approval of its Gas System Reliability Surcharge (GSRS). This surcharge is designed to allow for the adjustment of Atmos' rates and charges to provide for the recovery of costs associated with eligible infrastructure system replacements. Staff has conducted an audit of Atmos' GSRS filing and finds that the \$8,277,545 of capital expenditures requested for recovery by Atmos meets the eligibility requirements and should be included in the GSRS. Therefore, Staff recommends the Commission approve Atmos' proposed revenue requirement of \$863,520.¹ If approved, this filing will increase residential customer bills by \$0.40 monthly or \$4.80 annually. Staff is required to examine this GSRS filing and submit a Report and Recommendation to the Commission within 60 days of the original filing date regarding the appropriateness for GSRS

¹ Although the initial GSRS revenue requirement is \$863,520, the proposed surcharges, as shown on line 10 of Exhibit 2 of the Application, will ultimately allow Atmos to collect only \$800,928 of revenue annually. This is due to the statutory limit adjustment of \$62,592, which was applied to the initial revenue requirement to prevent the monthly surcharge to residential customers from exceeding \$.40. K.S.A. 66-2204(e)(1) states, "Such monthly charge shall not increase more than \$.40 per residential customer over the base rates in effect for the initial filing of a GSRS. Thereafter, each filing shall not increase the monthly charge more than \$.40 per residential customer over the most recent filing of a GSRS." See Exhibit 2 of the Application for the calculation and application of the statutory limit adjustment.

recovery of the projects included and the proper calculation of the surcharge. Therefore, a Report and Recommendation in this Docket is due by December 27, 2016.²

BACKGROUND:

On October 25, 2016, Atmos filed an Application requesting Commission approval to implement changes in its GSRS tariff schedule. This tariff is designed to allow for the adjustment of Atmos' rates and charges to provide for the recovery of \$8,277,545 of capital costs for eligible infrastructure system replacements. Atmos is requesting a revenue increase of \$863,520.

K.S.A. 66-2204 requires Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statutory provisions of the Gas Safety and Reliability Policy Act. Staff is required to file a Report and Recommendation in this Docket by December 27, 2016. The Commission is required to issue a Final Order on the Application within 120 days of the filing date which, in this Docket, is by February 22, 2017.

To make the determination of recommending a given project for inclusion in the GSRS, it is customary for Staff to evaluate the project to determine if infrastructure replacements are required for compliance with pipeline safety regulations or if relocation/replacement projects were incurred due to other public works projects. To perform this evaluation, Staff must rely on the description of each project provided in the operator's Application or through responses to data requests.

History

The Gas Safety and Reliability Policy Act, K.S.A. 66-2001 through 66-2004, was enacted by the Kansas Legislature in July 2006. The statutory provisions allow natural gas public utilities to recover costs for certain infrastructure projects through a monthly customer surcharge. These statutory provisions only apply to projects that entail the replacement of infrastructure or extend the useful life of existing infrastructure. The replacement projects are further limited to those projects that are required for compliance with pipeline safety regulations or for facility relocation projects caused by other public works projects, such as road improvement.

In its review of the Application, the Commission is required to confirm that the included replacement projects meet the provisions of the Act. The Commission is also charged with the obligation of confirming that the proposed surcharge has been properly calculated and is based solely on the projects included in the Application. As a first step in making this determination, Staff relies on two essential statutory provisions. Those provisions are as follows:

- K.S.A. 66-2202 (f)
 - “natural gas utility plant projects” may consist only of the following:
 - (1) Mains, valves, service lines, regulator stations, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities;

² The 60-day period ends on Saturday, December 24, 2016. Because this date falls on a holiday weekend, the actual due date of the Report and Recommendation will be the following Tuesday, December 27, 2016.

- (2) main relining projects, service line insertion projects, joint encapsulation projects and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state and federal safety requirements; and
- (3) facility relocations required due to construction or improvement of a highway, road, street, public way or other public work...provided that the costs related to such projects have not been reimbursed to the natural gas public utility.
- K.S.A. 66-2203 (a)
...a natural gas public utility providing gas service may file a petition...to establish or change GSRS rate schedules...to provide for the recovery of costs for eligible infrastructure system replacements.

Kansas pipeline safety regulations are primarily adopted from federal pipeline safety regulations: 49 CFR Part 192, as adopted by K.A.R. 82-11-4. As stated in the scope of the federal code, the regulations prescribe the minimum safety requirements for pipeline facilities. When evaluating projects for the applicability of GSRS, the decision must rest on defining which portion of the project brings the system into compliance with safety regulations and which portion of a given project is being completed as a business decision to renew an aging infrastructure or improve operating efficiency. Often the utility's rationale for performing a replacement project is based on a blend of economic considerations with pipeline safety or relocation requirements.

ANALYSIS:

Pipeline Safety

Atmos is requesting recovery of capital expenditures totaling \$8,277,545 for 51 projects through the GSRS in this filing. Staff considers all the projects submitted in this filing to meet the pipeline safety requirements for GSRS recovery as discussed further in this section.

Atmos categorizes the projects being included in its GSRS filing into three groups: 1) Specific Safety Related System Replacements; 2) Public Improvement Relocations; and 3) Functional Safety Related Projects.³ Staff's analysis of the three categories is as follows:

Specific Safety Related System Replacements:

Based on documentation provided by Atmos in its Application and in discovery responses, Staff agrees that the project types listed in this group are eligible for capital cost recovery through the GSRS. These projects are specifically identified projects incurred due to pipeline safety regulation requirements, such as leak repair projects, valve replacements, obsolete equipment replacements, and etc. Staff finds the 30 projects listed in this category meet the pipeline safety requirements for GSRS. The capital cost amount associated with this category that Staff considers eligible for recovery is \$2,678,865.

Public Improvement Relocations:

The eight projects in this group are submitted by Atmos as governmentally mandated road location projects which have not been reimbursed to the utility.⁴ Staff agrees these projects

³ See Company witness Barton W. Armstrong's Testimony, page 4.

⁴ See Company witness Barton W. Armstrong's Testimony, page 6.

meet the pipeline safety criteria for recovery of capital costs through the GSRS. The capital cost amount associated with this category that Staff considers eligible for recovery is \$1,764,157.

Functional Safety Related Projects:

Atmos describes "functional" projects as blanket projects that contain several smaller projects, usually more than one hundred projects collectively in a given blanket project. Atmos has approximately ten blanket projects for leak repairs on pipe and three blanket projects for cathodic protection system upgrades. Of the ten leak repair project groups, Atmos states that the smaller projects consist only of the following:

1. Non-Growth Leak Mains: Main replacement projects of pipe segments between 5-feet and 250-feet due to gas leakage; and
2. Non-Growth Leak Services: Full and partial replacement of any existing service line due to gas leakage.

Based on data Atmos provided in its Application, in data responses, and at an on-site audit that included a significant sampling of work order system entries, Staff considers these thirteen blanket groups to meet the criteria for recovery of capital costs through the GSRS. The capital cost amount associated with this category that Staff considers eligible for recovery is \$3,834,523.

Accounting

Staff recommends that Atmos be allowed to collect a total of \$863,520 in GSRS revenue requirement per year via the per-customer monthly charges listed in Exhibit 2 of Jennifer Ries' direct testimony. This is Atmos' first GSRS filing since its 16-ATMG-079-RTS rate case. The specific calculations that lead to the proposed revenue requirement can be found in Exhibits 1 through 6 of Jennifer Ries' direct testimony.

Staff performed an audit of Atmos' Application to verify that the surcharge was properly calculated and based solely on the projects included in the Application. Staff issued discovery requesting invoices and general ledger entries in support of a random sample of projects included in the Application. Upon reviewing this documentation, Staff found no material errors or concerns.

RECOMMENDATION:

Staff recommends that the Commission approve Atmos' requested GSRS revenue of \$863,520 to be collected via the per-customer surcharge with the following conditions:

- Atmos must file updated GSRS tariffs to reflect the changes in the per-customer surcharge as discussed above prior to billing the new surcharges;
- Atmos must file a GSRS true-up pursuant to K.S.A. 66-2204(e)(2); and
- Staff will review Atmos' true-up filing to ensure that the amounts recovered via the surcharge are appropriate and any over/under-recoveries will be refunded to or recovered from customers at that time.

CERTIFICATE OF SERVICE

17-ATMG-141-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Corrected Version of Staff's Report and Recommendation was served via electronic service this 23rd day of January, 2017, to the following:

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