

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

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

In the Matter of the Application of Kansas Gas)
Service Company, a Division of One Gas Inc.,) Docket No. 23-KGSG-282-TAR
for Approval to Revise Section 7 of its General)
Terms and Conditions.)

**ORDER GRANTING IN PART, DENYING IN PART, KANSAS GAS SERVICES'
APPLICATION TO REVISE ITS TARIFF**

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the pleadings and record, the Commission makes the following findings:

1. On August 26, 2022, pursuant to K.S.A. 66-117, Kansas Gas Service Company, a Division of One Gas Inc. (KGS) filed its Application to Revise Section 7 of its General Terms and Conditions (Tariff). KGS' Application is supported by testimony from Lorna M. Eaton, a Manager in KGS' Rates and Regulatory Department.¹ Specifically, KGS seeks to revise two sections of its Tariff. First, KGS proposes revising GT&C 7.09, which outlines when customers reimburse it for changes to its facilities, to use its average embedded cost when calculating service line reconnections, relocations, abandonments, and meter relocations.² KGS also seeks to revise GT&C 7.09 to clarify it applies to equipment upgrades, mains, and service lines.³ Second, KGS proposes revising GT&C 7.04.03(2), which establishes customer allowances for

¹ Application to Revise Section 7 of Kansas Gas Service's General Terms and Conditions, Aug. 26, 2022, ¶ 4.

² *Id.*, ¶ 3.

³ *Id.*, ¶ 5.

service line installations or replacements to use its average embedded cost when calculating this allowance.⁴

2. The current cost-per-foot calculations have not been updated in over nine years.⁵ Currently, for service line and/or yard line installation or replacement of piping 1¼-inch in diameter or less, and exceeding 200 feet, customers are billed \$4.54 per foot for the portion of the line exceeding 200 feet.⁶ For piping greater than 1¼-inch in diameter, customers are billed for the actual construction cost minus an allowance of up to \$908.⁷

3. Under KGS' proposed revisions, the general methodology for service line / yard line allowances would remain unchanged, and the cost-per-foot would be updated by May 1 of each calendar year when KGS submits updated average embedded cost data.⁸ KGS explains that moving to the Average Embedded Cost would provide customers with certainty on project costs, and also reduce administrative costs to quantify the amount to bill each job requested by its customers.⁹

4. On September 8, 2022, the Commission issued a Suspension Order, suspending the deadline for a Commission Order to April 24, 2023. On April 21, 2023, KGS filed a Waiver and Extension of Suspension Period, pursuant to K.S.A. 66-117(c), agreeing to a 30-day extension to May 24, 2023 for the Commission to issue its Order.

5. On April 5, 2023, Commission Staff (Staff) filed its Report and Recommendation, recommending approval of KGS' request to revise Sections 7.04.03 and 7.09 of its Tariff.¹⁰ Staff concurs with KGS' proposal to charge customers 1/3 of the proposed Average Embedded

⁴ *Id.*, ¶ 3.

⁵ *Id.*, ¶ 9.

⁶ *Id.*, ¶ 8.

⁷ *Id.*

⁸ *Id.*, ¶ 9.

⁹ Direct Testimony of Lorna M. Eaton, Aug. 23, 2022, pp. 2-3.

¹⁰ Staff Report and Recommendation, March 30, 2023, p. 3.

Cost of \$1,464 (which amounts to \$488) for all service line abandonments because it is based on the average costs incurred from January 2019 through December 2021.¹¹ Staff agrees that applying an average embedded cost methodology and updating the average embedded cost annually would result in customers being charged the most updated amount and being certain of the cost of any project.¹² Likewise, Staff agrees that applying an Average Embedded Cost methodology will reduce the administrative costs incurred quantifying the costs of each requested job.¹³

6. On April 13, 2023, the Citizens' Utility Ratepayer Board (CURB)¹⁴ filed its Response to Staff's Report and Recommendation, opposing charging the Average Embedded Cost for projects of pipe diameters 1 1/4 inch or less, for customer requested relocation, reconnection, or upgrades of Company equipment and charging 1/3 of the Average Embedded Cost for service line abandonment.¹⁵ CURB is concerned whether there will be a rise in the number of high-cost projects and whether low-cost projects will be drastically overcharged.¹⁶ CURB believes that while the average cost of projects is nearly identical to the Average Embedded Cost, the median costs is much lower, indicating that the majority of projects are below the average cost and the high-cost outliers skew the average.¹⁷ CURB asks the Commission to continue to require KGS to address customer-requested projects and service line abandonments on an individual basis.¹⁸ But in the alternative, CURB urges the Commission to require KGS to include additional reporting on the number of projects completed and data for

¹¹ *Id.*, p. 2.

¹² *Id.*, p. 3.

¹³ *Id.*

¹⁴ CURB was granted intervention on Sept. 8, 2022.

¹⁵ CURB's Response to Staff's Report and Recommendation, Apr. 13, 2023, ¶ 5.

¹⁶ *Id.*

¹⁷ *Id.*, ¶ 7.

¹⁸ *Id.*, ¶ 12.

customer-related project and service line abandonment costs with its annual updates to Average Embedded Cost.¹⁹

7. On April 18, 2023, KGS filed its Reply to CURB, noting using Average Embedded Costs for calculating facility installation allowances is a regulatory endorsed practice, which can reduce administrative burdens, and that CURB's additional requirements would nullify the efficiencies gained from using an Average Embedded Cost methodology.²⁰ Accordingly, KGS advises that if the Commission adopts CURB's recommendation, it plans to withdraw its proposal without prejudice.²¹

8. On April 26, 2023, CURB filed its Response to KGS, to clarify its objection is limited to KGS implementing a fixed charge for customer-requested relocation, reconnection of upgrades.²² CURB also disputes KGS' claim that its proposal directly mirrors Atmos' tariff.²³

9. On May 5, 2023, KGS filed a Second Reply to CURB, noting CURB has not expressed any concerns about escalating costs in its frequent reviews of Atmos' annual cost updates, and thus, seems to be singling out KGS for heightened scrutiny.²⁴ KGS also claims it appears to be aligned with CURB on the use of Average Embedded Costs for new service line installations and replacements, with any disagreement limited to the use of Average Embedded Costs for customer-requested relocations, reconnections, upgrades, or abandonment of service lines and meters.²⁵

10. The Commission grants KGS' proposed revisions to Section 7.09 of its Tariff to clarify this provision includes equipment upgrades, mains, and service lines. However, the

¹⁹ *Id.*

²⁰ Kansas Gas Service's Reply to CURB, Apr. 18, 2023, ¶ 5.

²¹ *Id.*

²² CURB's Response to Kansas Gas Service's Reply to CURB's Response to Staff's Report and Recommendation, Apr. 26, 2023, ¶ 6.

²³ *Id.*, ¶ 8.

²⁴ Kansas Gas Service's Second Reply to CURB, May 5, 2023, ¶ 2.

²⁵ *Id.*, ¶ 6.

Commission finds CURB raises legitimate and important concerns about whether the changes will result in just and reasonable rates by eroding cost containment signals in KGS' current "actual cost" approach. Based on these concerns, the Commission denies KGS' request to charge the Average Embedded Cost for customer-requested relocation, reconnection, or upgrades of Company equipment for projects of pipe diameters 1 1/4 inch or less, and 1/3 of the Average Embedded Cost for service line abandonment.

11. KGS has advised that if the Commission adopts CURB's recommendation for additional reporting, it wants an opportunity to withdraw its proposal without prejudice.²⁶ Since the Commission has denied KGS' request to charge the Average Embedded Cost for customer-requested relocation, reconnection, or upgrades of Company equipment for projects of pipe diameters 1 1/4 inch or less, and 1/3 of the Average Embedded Cost for service line abandonment, rather than simply impose additional reporting requirements of the use of Average Embedded Costs for calculating facility installation allowances, it is unclear whether KGS still wishes to withdraw its Application without prejudice. If KGS still wishes to withdraw its Application without prejudice, leave will be freely given.

THEREFORE, THE COMMISSION ORDERS:

A. KGS' proposed revisions to Section 7.09 of its Tariff to clarify this provision includes equipment upgrades, mains, and service lines is granted.

B. KGS' proposal to use the Average Embedded Cost Methodology for customer requested relocation, reconnection, and upgrades of its equipment, and one-third of the Average Embedded Cost for service line abandonment is denied. KGS is still required to address customer-requested projects and service line abandonments on an individual basis.

C. KGS may withdraw its Application without prejudice.

²⁶ Kansas Gas Service's Reply to CURB, Apr. 18, 2023, ¶ 5.

D. Any party may file for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).²⁷

BY THE COMMISSION IT IS SO ORDERED.

Duffy, Chair; Keen, Commissioner (Dissenting); French, Commissioner

Dated: 05/09/2023



Lynn M. Retz
Executive Director

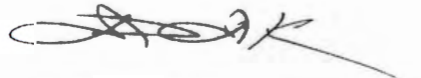
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²⁷ K.S.A. 77-503(c); K.S.A. 77-531(b).

DISSENTING OPINION

I support adopting Commission Staff's Report and Recommendation to approve KGS' Application to use the Average Embedded Cost Methodology for customer requested relocation, reconnection, and upgrades of its equipment, and one-third of the Average Embedded Cost for service line abandonment. In its Report and Recommendation, Staff concludes that applying an average embedded cost methodology and updating the average embedded cost annually would result in customers being charged the most updated amount and being certain of the cost of any project. Likewise, Staff believes that using an Average Embedded Cost methodology would reduce administrative costs incurred quantifying the costs of each requested job.

The evidence supplied by both KGS and Staff demonstrates moving to the Average Embedded Cost would provide customers with certainty on project costs, while also reducing administrative costs. By providing customers with certainty and reducing administrative costs that could be passed through to customers, there are quantifiable benefits to approving KGS' Application. I completely concur with the approach proposed by KGS and supported by the Staff Report and Recommendation. To the contrary, CURB's position, and the position adopted by the majority, is purely speculative and conjectural. In its own words, CURB's concerns are "*whether* there will be a rise in the number of high-cost projects requested and completed (projects which may have previously been rejected by ratepayers due to high estimated costs) and *whether* low-cost projects will be drastically overcharged."¹ (emphasis added). Similarly, "CURB is concerned that the number of high-cost outlier projects will increase *if* customers are told all projects will cost a flat amount."² (emphasis added). The speculative and conjectural nature of CURB's concerns are such that they lack factual support and are not sufficient to reject KGS' Application. Therefore, I dissent from the Commission's Order.



Dwight D. Keen
Commissioner

¹ CURB's Response to Staff's Report and Recommendation, Apr. 13, 2023, ¶ 5.

² *Id.*, ¶ 9.

CERTIFICATE OF SERVICE

23-KGSG-282-TAR

I, the undersigned, certify that a true copy of the attached Order has been served to the following by means of electronic service on 05/09/2023.

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