

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

In the Matter of the Application of Atmos )  
Energy for Approval of the Commission of the )  
Fourth Annual System Integrity Program ) Docket No. 25-ATMG-278-TAR  
("SIP") Rate Change. )

**NOTICE OF FILING OF STAFF'S  
REPORT AND RECOMMENDATION**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files the instant Report and Recommendation in response to the Application of Atmos Energy requesting for approval of its revised incremental System Integrity Program ("SIP") revenue requirement increase of \$611,615. If approved, this filing increases residential customer bills by \$0.29 monthly or \$3.48 annually.

Staff has reviewed all testimony, exhibits, and discovery responses from Atmos and recommends rate recovery of the requested capital expenditures begin through the SIP. Staff will ensure that any over or under collection of Commission approved SIP revenues will be reflected in a future SIP filing or a future true-up filing.

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

Respectfully submitted,  
/s/ Carly R. Masenthin  
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Andrew J. French, Chairperson  
Dwight D. Keen, Commissioner  
Annie Kuether, Commissioner

Laura Kelly, Governor

**REPORT AND RECOMMENDATION  
UTILITIES DIVISION**

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

**FROM:** Ashlyn Hefley, Utilities Engineer  
Tim Rehagen, Senior Auditor  
Paul Owings, Chief Engineer  
Chad Unrein, Chief of Accounting and Financial Analysis  
Jeff McClanahan, Director of Utilities

**DATE:** March 6, 2025

**SUBJECT:** Docket No. 25-ATMG-278-TAR In the Matter of the Application of Atmos Energy for Approval of the Commission of the Fourth Annual System Integrity Program ("SIP") Rate Change.

**EXECUTIVE SUMMARY**

Atmos Energy (Atmos) filed its fourth annual System Integrity Program (SIP) rate change on January 15, 2025. Atmos proposed to begin rate recovery for \$6,321,222 in capital expenditures. Staff has reviewed all testimony, exhibits, and discovery responses from Atmos and recommends rate recovery of the requested capital expenditures begin through the SIP. Staff is recommending an incremental SIP revenue requirement increase of \$611,615. If approved, this filing increases residential customer bills by \$0.29 monthly or \$3.48 annually.

**BACKGROUND**

On January 15, 2025, Atmos filed an Application requesting Commission approval for its fourth annual SIP rate change. Atmos' requested tariff is designed to provide an incremental revenue requirement increase of \$618,826 for the 2024 SIP period. Prior to the True-up calculation, Atmos' Application included a total revenue deficiency of \$2,793,687, with the Commission authorizing \$2,103,894 in additional revenues for the prior three rate periods. On January 22, 2025, Atmos filed an amended Application that updated its incremental revenue requirement for a reduction in

depreciation expense of \$7,210 for additional retirements.<sup>1</sup> Atmos' adjustment resulted in a change in the incremental revenue requirement to \$611,615.

In Atmos' 19-ATMG-525-RTS (19-525) filing, the Company requested and was granted the ability to utilize a System Integrity Program (SIP). Tariff Schedule X explains in detail the goals of the mechanism and how it should be implemented. The SIP mechanism is designed to provide annual rate recovery of incremental capital investment which will be required in order to accelerate the pace of replacement of obsolete materials in the Kansas distribution system. The SIP mechanism is designed to last an initial five-year period with an option for the Company to extend the program, with Commission approval. The amount of capital expenditures is expected to be \$35 million over the five-year pilot.

An initial SIP plan, including projects intended to be completed under the SIP was filed on July 1, 2020, and approved by the Commission on October 8, 2020.<sup>2</sup> This plan included all the projects intended to be replaced in each SIP plan year (January 1 thru December 31) beginning in 2021 and ending in 2025 along with the estimate of how much each project would cost in the calendar year.

Every year on August 1, Atmos will file the upcoming year's SIP Project Plan. A Commission decision should be issued by November 1. The Annual SIP Rate Change will occur each year during the five-year SIP Plan. On January 15 of the following year, Atmos will file its Annual SIP Rate Change. The Commission shall issue an Order by April 1.<sup>3</sup>

Further, in order to get full recovery of the SIP plan projects, Atmos must make capital expenditures for safety, reliability, and other GSRs qualifying expenditures in Kansas of at least \$22 million in its fiscal year ending during the SIP year. If the capital expenditures do not exceed \$22 million, the amount of the SIP Plan capital expenditures reflected in the Annual SIP Rate Change filing shall be reduced by the difference. As shown in Exhibit 7 of the Application, Atmos spent a total of \$34,864,414 in fiscal year 2024.

The SIP projects are identified by the use of the "Likelihood of Failure" and "Consequence of Failure" tools. The "Likelihood of Failure" takes leakage history and expert input of any known pipe issues or cathodic protection problems. The "Consequence of Failure" attributes include critical facilities, population density, amount of wall-to-wall pavement, potential impact radius, maximum pressure, and leak response time. These two tools are combined to produce an overall score. The projects with the highest scores are then selected. In addition, replacement of low pressure systems and bare steel are a priority or goal for the initial five-year SIP plan.

## **ANALYSIS**

### **Pipeline Safety**

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<sup>1</sup> See Letter from Atmos Energy Corporation (James G. Flaherty) Updating Testimony and Exhibits

<sup>2</sup> These were filed in Docket No. 19-ATMG-525-RTS.

<sup>3</sup> In this proceeding, the projects were approved on October 12, 2023. Work commenced during 2024 and the Annual SIP Rate Change was filed on January 15, 2025..

Atmos' Year-Four SIP program consisted of four total projects in Edna, Bartlett, Coffeyville, and Sedan. Combined, the actual cost for all projects was .3% below the aggregated estimated cost. Please refer to Table 1 below for the miles of pipe installed, number of customers, estimated cost, and actual cost.

**Table 1. Year-Four SIP Plan Overview<sup>4</sup>**

<b>Project Location</b>	<b>Miles of Pipe Installed</b>	<b>Number of Affected Customers</b>	<b>Estimated Cost</b>	<b>Actual Cost</b>
Edna	3	110	\$1,881,612	\$2,182,255
Bartlett	.57	14	\$261,000	\$289,148
Coffeyville: Pine	.57	23	\$531,000	\$347,498
Sedan: Bradley	2.8	123	\$4,000,000	\$3,833,417

Each project targeted low-pressure bare steel systems. Year-Four SIP projects eliminated idled services and dual mains. The Edna project was completed in December and cost approximately 16% more than the estimated cost. The project eliminated eight low pressure regulator stations and 16,712 feet of bare steel and vintage PE main. The Bartlett project was completed in June and cost approximately 11% more than the estimated cost. The project eliminated two low pressure regulator stations and 3,677 feet of bare steel and vintage PE main. The Coffeyville project was completed in September and cost approximately 35% under the estimated cost. The project eliminated one low pressure regulator station and 8,319 feet of bare steel and vintage PE main. The Sedan project was completed in October and cost approximately 4% under the estimated cost. The project eliminated three low pressure regulator stations and 25,850 feet of bare steel and vintage PE main. Staff recommends that the Commission allow Atmos to recover all of the above stated costs associated with the fourth year of the SIP program.

Accounting

In Exhibit 1 of the Application, Atmos's qualifying rate base addition totaled \$25,707,211, across the four annual SIP filings.<sup>5</sup> The total rate base additions are multiplied by a pre-tax rate of return of 8.7%, which resulted in a total operating income of investment of \$2,236,527. Following its reduction to depreciation expense of \$7,210, depreciation expense included in the filing totaled \$549,948. The total revenue deficiency was revised to \$2,786,476. Atmos offset the total revenue deficiency with an over-recovery of \$70,967 from the most recent SIP period, resulting in a total revenue requirement of \$2,705,508 for the four-year GSRS period. Finally, Atmos removed \$2,103,894 in revenues that have been previously authorized by the Commission and sought to recover its incremental revenue request of \$611,615.

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. Further, Atmos provided Staff with invoices and general ledger data in support of all projects included in the Application. Other than the update to depreciation expense, Staff did not find any errors or concerns in its review of the SIP revenue requirement calculation.

<sup>4</sup> SIP Year Four Technical Conference.

<sup>5</sup> See Atmos Application, Exhibit 1.

## **RECOMMENDATION**

Staff recommends that the Commission approve Atmos' revised incremental SIP revenue requirement increase of \$611,615, to be collected via the per-customer surcharge amount found on Exhibit 2 as attached to the Atmos Amended Application. Staff will ensure that any over or under collection of Commission approved SIP revenues will be reflected in a future SIP filing or a future true-up filing.

## CERTIFICATE OF SERVICE

25-ATMG-278-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served via electronic service this 6th day of March, 2025, to the following:

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