

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas )  
Gas Service, a division of ONEOK, Inc., )  
for approval to implement the Efficiency )  
Kansas energy efficiency program, to )  
implement natural gas energy efficiency )  
programs to improve building and )  
equipment efficiency and to educate about )  
efficient energy usage, to provide for )  
program cost recovery through a rider )  
mechanism, to establish administrative )  
charges and a program initiation fee, )  
permit the implementation of a revenue )  
decoupling mechanism, and appropriate )  
accounting authority to defer expenses and )  
revenues associated with the filing. )

Docket No. 10-KGS6-421-TAR

STATE CORPORATION COMMISSION

DEC 18 2009



**APPLICATION**

COMES NOW, Kansas Gas Service, a division of ONEOK, Inc. ("Kansas Gas Service" or "Applicant"), and files this application for approval of the following: (1) An Energy Efficiency Program permitting access to the Commission's Efficiency Kansas loan program through a Partner Utility selecting Option 1 under the Program Manual in effect at the time of this application; (2) a portfolio of energy efficiency programs established in conjunction with Docket Nos. 08-GIMX-441-GIV ("441 Docket") and 08-GIMX-442-GIV ("442 Docket"), including an education program; (3) cost recovery, including an Energy Conservation Rider for the Efficiency Kansas loan program and the portfolio of energy efficiency programs as well as a utility and State Energy Office administrative charges for the Efficiency Kansas program and an initiation fee to cover program costs for the Efficiency Kansas program; (4) the establishment of a revenue decoupling mechanism within the Energy Conservation Rider to recognize changes in

customer consumption as identified by the Commission in its Final Order in Docket 441; and 5) specific Commission authority to defer all program costs and accrued revenue pursuant to the proposed decoupling mechanism. This request is necessary to properly account for the items requested to be recovered from ratepayers as further described within this application and testimony. In support of the application, Kansas Gas Service states:

## I. INTRODUCTION

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

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:

Walker Hendrix  
John P. DeCoursey  
Kansas Gas Service  
a division of ONEOK, Inc.  
7421 W. 129<sup>th</sup> Street  
Overland Park, Kansas 66213

Dave Dittmore  
Manager Regulation and Rates  
7421 W. 129<sup>th</sup> St.  
Overland Park, Kansas 66213

3. The Commission indicated its preference for working with utilities in a collaborative way to permit voluntary efforts to implement energy efficiency programs consistent with the objectives and goals set forth in the 442 Docket. The Commission

stressed the need to pursue energy efficiency in a comprehensive manner, while making cost-effective expenditures for energy efficiency. The comprehensive approach stressed in the 442 Docket embraced the “total home” or building concept using building science principles to achieve energy efficiency. The Commission also indicated a need to provide an array of energy efficiency programs that would benefit all customer classes, including low-income customers. The Commission stressed a need for customer education and new rate design proposals to provide customers a better understanding the cost of providing energy.

4. The Commission addressed the “throughput incentive,” which ties revenue and income to the volume of sales made by a utility to its customers, and indicated a need to avoid the loss of margins that would result from implementing energy efficiency and conservation programs. In this regard, the Commission discussed the need for a utility to maintain revenue stability to recover fixed costs and identified decoupling – the disassociation of cost recovery and customer usage -- as a remedy for meeting revenue shortfalls. As part of an energy efficiency program, the Commission acknowledged its willingness to consider decoupling proposals from natural gas utilities. In conjunction with the development of energy efficiency programs, the Commission recognized in the 441 Docket a need for utilities to be able to recover energy efficiency program costs on a fairly contemporaneous basis through the use of a rider recovery mechanism. The Commission announced it expected a utility initiating energy efficiency programs to include a proposal for a rider in its application seeking approval of such programs.

5. On April 13, 2009, the Commission issued an order in the 442 Docket to establish guidelines and procedures for reviewing energy efficiency programs. In the

order, the Commission adopted the use of the California Standard Practice Manual and the five benefit-costs tests for evaluating programs. The Commission determined certain values and components to be used in the test formulas and placed reliance on the California Database for Energy Efficient Resources (DEER) source document for measurement values in the absence of Kansas baseline data. The Commission also addressed educational programs and the objective of informing customers about energy efficiency. According to the Commission, educational programs do not need to meet any particular benefit-cost test.

6. On July 15, 2009, the Commission's State Energy Office (SEO) introduced its Efficiency Kansas loan program for homeowners and small businesses. The revolving loan program was funded with approximately \$34 million appropriated for state energy efficiency programs under the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA appropriation was made under Section 410, which provides in part for three preconditions to be met before an appropriation is made. The first precondition requires the Commission develop policies to ensure "that utility financial incentives are aligned with helping customers use energy more efficiently and that provide timely cost recovery and timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings ...." Based on this language and to protect a utility from a decline in revenues related to energy efficiency and conservation, decoupling is an appropriate regulatory mechanism to be instituted as part of the Section 410 appropriation in order to align customer and utility incentives to achieve cost-effective energy savings.

7. The SEO has issued guidelines for participation in the Efficiency Kansas Revolving Loan Program. The current Efficiency Kansas Manual (Version 3, dated November 12, 2009) establishes a two-track program for utilities and banks to provide financing for the installation of energy efficiency measures. A utility track program requires an audit to be performed on the residence or building to assess the building envelope, combustion safety, mechanical systems, duct leakage, moisture control and air tightness. The customer then arranges with a contractor to consider areas of improvement identified in the audit and the energy conservation plan (ECP). The ECP is submitted by the customer to the utility, and the utility provides the plan to the State Energy Office. The SEO reviews the plan, and if it meets the standards set out in the Manual, approves the plan and the contractor commences work. Upon completion of the project, a post-retrofit audit is performed to determine whether the energy measures have been properly installed. A certificate of completion is executed by the customer, the auditor and the utility to indicate successful installation of the energy efficiency measures. The certificate is forwarded to the SEO, which distributes federal funds under the ARRA to the utility for the benefit of the customer. The utility then remits payment to the contractor. The customer repays the financing for the improvements on the customer's utility bill, subject to terms and conditions for repayment. In addition to the monthly loan amortization, the customers will also be assessed a fixed monthly charge for SEO and KGS administration costs. Pursuant to the Manual, the SEO will limit utility bill financing to 90% of the estimated total energy savings, with financing based on a maximum of 15 years or 180 payments.

## **II. THE PURPOSE AND SUMMARY OF THE CONENT OF THIS FILING**

### **A. The Purpose of This Filing**

8. Based on the legislative and regulatory development outlined above, Kansas Gas Service has elected to propose energy efficiency and conservation programs together with a revenue decoupling mechanism. The purpose of this filing is to establish a portfolio of basic natural gas energy efficiency programs and the Efficiency Kansas revolving loan program.

9. To implement the programs, Kansas Gas Service is requesting recovery of its incremental program costs through an Energy Conservation Surcharge (ECS). Kansas Gas Service has prepared a budget for the costs that are anticipated to be incurred to commence and operate the two programs, less any amounts directly assigned to program participants under the Efficiency Kansas program. These costs include the addition of personnel and equipment, education and marketing initiatives, incentives for improving energy efficiency in home and building structures and internet web page developments. The ECS is to be established in conjunction with direct participant costs identified for the Efficiency Kansas program and further discussed in paragraph no. 10.

10. In conjunction with the Efficiency Kansas program, the SEO and Kansas Gas Service anticipate incurring costs to manage the financing for this meter-based program. To administer this program and to permit equitable cost recovery from participants, Kansas Gas Service will bill and collect the \$2.00 administrative fee to be paid to the SEO as set forth in the Efficiency Kansas manual. KGS also requests authority to collect a \$4.00 utility maintenance (administrative) fee necessary to recover KGS' ongoing monthly costs to bill, collect, remit and report on participant payment activity. In

addition, Kansas Gas Service is proposing a one-time initiation or processing fee of \$120.00 for each customer participant to recover a portion of the cost incurred to establish a participant within the program. Although these charges will not fully reimburse Kansas Gas Service for providing the Efficiency Kansas program, these amounts establish appropriate participant expenditures that acknowledge direct participant contributions, while also permitting the program to be made affordable. Residual program costs will be recovered for this program under the ECS.

11. As a necessary component of this application, Kansas Gas Service is also seeking a decoupling mechanism to permit it to align its financial interests with customer objectives for reducing energy consumption. Currently, Kansas Gas Service recovers a majority of its costs through volumetric rates. The ability to recover its revenue requirement is therefore dependent on the amount of natural gas being consumed by its customers. To create the necessary incentive for reducing consumption through energy conservation measures, Kansas Gas Service must have the ability to collect sufficient revenue to reimburse it for the fixed costs it incurs for the delivery of natural gas. This may be accomplished through a decoupling mechanism. Kansas Gas Service is proposing such a mechanism. It will permit Kansas Gas Service to recognize and subsequently collect the revenue shortfall between the amount of revenue it was authorized to collect in its previous rate case in Docket No. 06-KGSG-1209-RTS, plus the cumulative authorized Gas System Reliability Surcharge revenue for the Residential and General Sales Service tariff classes in comparison with revenues being currently earned from these respective classes. KGS will retain the Weather Normalization

Adjustment, and thus actual revenue will include that earned through the WNA mechanism.

12. Kansas Gas Service is also seeking accounting authority to permit it to recognize revenues on a monthly basis for the decoupling mechanism and to defer and recover program costs. The accounting treatment for the revenues associated with the decoupling mechanism and deferral of recovery of program costs must be in accordance with Generally Accepted Accounting Principles (GAAP), ASC 980-10, which is the authoritative guidance for entities with rate regulated activities. During February of each year, the deferred program costs and recognized revenues will be calculated to determine the adjustments under the ECR and a surcharge amount will be established for collection from the Residential and General Sales Service classes. The Commission Staff will be given the opportunity to review the proposed surcharge amounts as part of a regulatory filing. This approach would be consistent with Docket 441 and will allow for recovery of costs incurred for the energy efficiency programs and decoupling revenue earned in prior period.

13. In support of the application, prefiled testimony is submitted as attachments to this filing. Brad Dixon, President of Kansas Gas Service, is providing testimony to support the overall commitment Kansas Gas Service is making to promote energy efficiency through the basic natural gas energy efficiency programs, Efficiency Kansas and the decoupling mechanism. He will also identify certain resources Kansas Gas Service will employ to implement and maintain the programs. Paul Raab, a regulatory and energy efficiency consulting expert, is providing testimony concerning the basic natural gas energy efficiency programs, participant levels, program costs, benefit-cost



analyses, the use of approved Docket 442 cost components and the principles supporting the need to have decoupling in conjunction with the implementation of energy efficiency programs. David Dittmore, Kansas Gas Service Manager of Rates and Regulation, is providing testimony about Efficiency Kansas, the education component of the basic programs, the budgets for the Efficiency Kansas and basic programs, the energy conservation rider and the recovery of program costs and decoupling revenues, the need for deferral treatment under specified accounting authority, regulatory reporting for the energy efficiency programs and the applicable tariff provisions.

14. In conjunction with this application, Kansas Gas Service has conferred with the Commission's Utility Department, the SEO and the Citizens' Utility Ratepayer Board. As part of the process for implementing the Efficiency Kansas program, Kansas Gas Service has executed a Memorandum of Agreement (MOU) with the SEO. On the approval of this application, Kansas Gas Service will take such further action that it necessary in order to become an Efficiency Kansas partner.

#### B. Content of the Filing

##### **Efficiency Kansas**

15. Kansas Gas Service is proposing to implement the Efficiency Kansas program as it is set forth in the Program Manual, Version 3, which was issued on November 12, 2009. This program allows a customer to arrange for financing energy efficiency improvements that are identified in an audit, approved by the SEO and made subject to meter-based charge on the utility bill. A budget has been prepared for this program, which will include expenditures for a dedicated energy efficiency staff and marketing. Kansas Gas Service will assist customers seeking to qualify for this program.

Under the program, Customers will arrange for an audit by an auditor approved by the SEO. The auditor will determine areas of energy efficiency improvement and will develop an ECP that identifies prioritized areas of energy efficiency improvement for a home or building structure. Once the customer's contractors have finalized their bids, which will represent firm expenditures for the applicable energy efficiency improvements, Kansas Gas Service will submit the audit, the ECP and other documents to the SEO. After the SEO makes a decision on a proposed ECP, Kansas Gas Service will inform the customer of the outcome. If the ECP is approved, the customer will be able to notify its contractors, and the contractors can commence work on the approved projects. The auditor will then do a post retrofit audit to determine whether the energy efficiency projects have been appropriately installed. The auditor and the customer will then sign a Certificate of Completion if the work has been approved, and on conferring with the auditor, Kansas Gas Service will sign the certificate and submit it to the SEO. On receipt of the certificate, the SEO will release the funding to the utility, and in turn, the utility will pay the contractors for their work.

16. The funds for Efficiency Kansas have been appropriated under the ARRA. Efficiency Kansas is a meter-based program. Customers applying for this program are seeking to avail themselves of funding that is being made available under the ARRA through the Commission's revolving loan fund. A customer will need to meet certain eligibility requirements to qualify to use funds under the program as part of a financing arrangement that is tied to the meter at the customer's premises. Once the Certificate of Completion is submitted to the SEO, the Commission will release funds pursuant to a monthly accounting procedure and Kansas Gas Service will then pay the customer's

contractors. Under the program, the cost of the energy efficiency improvements will be applied to the customer's bill by Kansas Gas Service using an Efficiency Kansas monthly charge, which is to be determined based on the period of time the customer elects to pay back the financing for the improvements, but not more than 15 years or 180 payments. The monthly charge for Efficiency Kansas will also include a \$2.00 administrative fee to cover costs incurred by the SEO, and a \$4.00 utility administrative fee to cover a portion of the participant expenses incurred by Kansas Gas Service. The customer will be informed of possible charges at the time the final ECP is submitted to Kansas Gas Service for submission to the SEO. After the ECP is approved by the SEO, the customer will be notified of the approval, and documents prepared in conjunction with the financing will set forth the finalized amount the customer will pay on a monthly basis under the program. To provide for equitable funding by participants, Kansas Gas Service is also asking that a customer under the program pay an initiation fee of \$120.00, which the customer will have the option of including as part of the Efficiency Kansas financing or paying directly. The customer will additionally have the ability to finance audit expenses under the program, subject to arrangements that are made between the customer and the auditor, inasmuch as the customer assumes responsibility for paying for the audit, whether the ECP is approved, the project improvements are initiated or financing arrangements are completed. The maximum amount being financed by a customer is limited to \$20,000.00 for residential customers and \$30,000.00 for general sales customers. All energy improvements to be financed under the program must not exceed 90% of the total savings that a customer is to achieve as a result of implement the energy efficiency improvements approved in the ECP.

17. Kansas Gas Service is electing to participate in the Efficiency Kansas program under option 1. As part of the Efficiency Kansas accounting procedures between Kansas Gas Service and the SEO, Kansas Gas Service is obligated to submit all of the payments it collects on a monthly basis. Under option 1, Kansas Gas Service will be required to report the status of each meter balance, the location of the meter, the total amount of remaining payments and whether the account is current or in arrears. In the case of default, Kansas Gas Service will be required to pursue any customer with a deficient account through its established collection procedures up through referral to its Collection Agency. If collection of a deficient account is not possible, Kansas Gas Service will refer the matter to the SEO for possible further collection efforts and litigation, if necessary. Kansas Gas Service will also verify it has exhausted its means to collect any deficient account where recovery is not possible. In implementing this program, funding advances made under Efficiency Kansas are regarded as a component of regular utility service, and a customer may be disconnected as further provided under the Commission's Billing Practices for non-payment of a meter-based charge under the program.

18. Disclosure is an important part of a meter-based program. The payment obligation attaches to the meter at the premise. If an owner sells or leases out the building structure, the meter-based charge may pass to the new owner or tenant. To accomplish the transfer of the Efficiency Kansas monthly charge on the utility bill, an existing customer selling or leasing a home or building must notify a prospective purchaser or tenant of the meter obligation before the property is sold or leased. Failure to give proper notice will cause the outstanding balance of what is due and owing to

remain with the seller or landlord and at the option of Kansas Gas Service, allow the full amount of the outstanding balance to become due. Efficiency Kansas also applies to conventional landlord and tenant relationships (e.g., multi-unit housing) and entails that both the landlord and the tenant be given notice of the meter-based obligation before an Efficiency Kansas application will be processed. As part of the program offering for rental units, Kansas Gas Service is going to require a landlord to execute a revert-to-owner agreement to permit the discharge of the Efficiency Kansas financed amount in a timely manner when a tenant is not present and with recognition that the landlord is benefiting from the efficiency improvements being made. With regard to notice, Kansas Gas Service intends to file a memorandum identifying the meter-based charge in the register of deeds office where the property is owned and to inform those establishing service of any ongoing obligations under the Efficiency Kansas program. Additionally, a new owner establishing service where a meter-based charge is effective will be required to execute an agreement promising to make disclosure of the charges to any subsequent owner as long as an outstanding balance exists. Upon proper notice being given, the Efficiency Kansas meter-based charge will be assessed and collected from a customer establishing new service.

19. Kansas Gas Service is providing this program to facilitate energy efficiency improvements by its customers. The program emphasizes a “whole house” approach. The customer is required to select its own contractors, including auditors, and bears full responsibility for the assessments and work performed. Kansas Gas Service makes no warranties with respect to work being done under this program nor does it assume any liability for installation, construction or operation of the energy efficiency improvements.

A customer or landlord must maintain insurance to cover the improvements and is responsible for repair or replacement of the energy efficiency improvements, if they become damaged or destroyed during the period the program is in effect. Customers are also required to provide accurate information in processing an application for funds and project approval under the program.

### **Portfolio of Basic Programs**

20. Kansas Gas Service is proposing to institute a set of energy efficiency programs that are unique to the natural gas industry. The programs were created to respond to the Commission's directive to develop a comprehensive set of strategies to address an array of energy efficiency applications. The programs target all major gas using appliances and thermal efficiency, especially when considering the previously referenced Efficiency Kansas program as part of a multifaceted approach. Kansas Gas Service also proposes to establish an education program and to develop a marketing strategy that will promote the basic programs as well as Efficiency Kansas.

21. The education program is designed to raise public awareness about energy efficiency. It will provide outreach through informational meetings that focus on cost-effective ways to reduce energy consumption, the Kansas Gas Service basic programs and available tax credits. It will offer educational opportunities for engineers, architects and other professionals concerning the benefits of using high efficiency natural gas equipment in residential and commercial structures. It will focus on home builders and residential developers in order to provide information about the environmental benefits of using high efficiency natural gas appliances. It will provide educational information through presentations provided at home shows, through a speaker's bureau and in school

classrooms. Additionally, Kansas Gas Service will expand public information through the development and design of its web-site.

22. Kansas Gas Service proposes to offer a seasonal check-up program. This program will enable customers to engage a third-party contractor to check up the home heating system. In so doing, the customer will receive a \$30.00 rebate or a credit in that amount for a programmable thermostat.

23. Kansas Gas Service proposes to offer a water heater program. A \$50.00 credit will be provided to customers installing a standard natural gas water heater with an energy factor of 0.62 or more. A \$300.00 credit will be paid to a customer who installs a water heating device with an energy factor of 0.82 or more.

24. Kansas Gas Service proposes to offer a heating system program. Customers choosing to upgrade to a more efficient natural gas furnace will be eligible for an incentive payment. The rebate offerings will be \$200.00 for a 92% efficient heating system and \$600.00 for a 95%+ efficient heating system.

25. Kansas Gas Service proposes to offer a natural gas direct use program. The program is a pilot and is designed to promote energy efficiency by replacing inefficient residential electric heating appliances with efficient natural gas heating equipment. An incentive payment of \$1,500.00 will be provided for each dwelling unit to enable the customer to defray the cost of installing natural gas facilities to the location as well as the cost of a residential furnace and other natural gas appliances. To qualify, a customer must have installed a gas furnace with at least an 80% efficiency rating. Total paid amounts under this pilot are to be capped at \$150,000.00.

26. Kansas Gas Service proposes to offer an ENERGY STAR® New Homes program. This program requires the builder or developer to construct a new house that is at least 15% more efficient or uses 15% less energy than the same house built under the 2004 International Energy Conservation Code. Kansas Gas Service is providing a \$250.00 rebate to be applied against the certification requirement for pre-drywall and post-construction inspections. This rebate may be combined with other rebates Kansas Gas Service proposes to offer and may equate to as much as \$1,150.00.

27. Kansas Gas Service is proposing to offer a Commercial Custom program. This program is to be established to allow larger customers to design projects to reduce natural gas usage. The projects will have to satisfy the Total Resource Cost Test (TRC). Incentive payments will be capped at 80% of the TRC benefit savings or a maximum of \$10,000.00. Each project will be evaluated by Kansas Gas Service to determine whether it provides cost-effective conservation. This program will allow larger customers who cannot take advantage of the other Kansas Gas Service programs to benefit from this offering. Examples of measures that may be considered under this program are water heaters, booster heaters, food service equipment, hydronic heaters, attic/roof insulation, installation of windows, duct sealing and other weatherization measures. Total payments under this program are capped at \$250,000.00.

28. Kansas Gas Service intends to allow customers to use preferred professionals that can apply rebate and incentive payments at the point of sale. The programs where this alternative will be provided are the Seasonal Check-Up program, the Water Heater program and the Heating System program.



29. All the basic programs were analyzed under the cost-effective tests provided in the California Standard Practice Manual, except the educational program. The Commission indicated that educational programs would not need to undergo evaluation under these tests. The other programs passed the TRC. The principal cost savings for the proposed programs are avoided natural gas costs. The incentive programs are shown to reduce customer bills, because the saving benefits from reduced gas consumption exceed the cost of the programs. Kansas Gas Service used the basic cost components set forth by the Commission in the 442 Docket in addressing the cost-effectiveness of the programs.

### **Budget**

30. Kansas Gas Service is presenting a five-year budget for its standard basic programs, which it is referring to as the Step ONE programs in this filing,<sup>1</sup> and the Efficiency Kansas program, consistent with the requirements contained in Appendix A as set forth in the 441 Docket.<sup>2</sup> The budget includes the addition of personnel, rebate costs, printing and materials, and a marketing expense, as well as expenses for evaluation, measurement and verification. Under the Efficiency Kansas program, Kansas Gas Service has proposed participants costs in the form of an initiation fee and a monthly administrative fee, and these revenues will assist in supporting the program. The budget provides for the allocation of expenses between Step ONE and Efficiency Kansas, where joint costs for both programs are to be incurred. The proposed budget for initial year of the Efficiency Kansas program is \$325,730, and the budget for the initial year of the Step

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<sup>1</sup> The Step ONE name may be changed for purpose of marketing and if a program name different than Step ONE is selected before the tariff filing, Kansas Gas Service reserves the right to change the name in the tariff.

<sup>2</sup> Kansas Gas Service may elect to co-brand its Efficiency Kansas program, but for the purpose of this application makes reference to the program as "Efficiency Kansas."

ONE basic programs is \$2,077,999. Total budgeted expenses for both programs are \$2,403,729.

31. The programs are being provided to retail sales residential and general service customers. The budgeted costs for both programs, as adjusted for participant payments, have been allocated and assigned to these customer classes. The net program costs will be recovered in the Energy Conservation Rider (ECR), along with the decoupling adjustment.

### **The Energy Conservation Rider**

32. In conjunction with the provision of the energy efficiency programs, Kansas Gas Service is proposing to recover program costs and decoupling revenues through an ECR. The ECR will include all program costs related to the Step ONE basic programs. It will also recover residual Efficiency Kansas expenses that have not otherwise been reimbursed by participants. In addition, Kansas Gas Service proposes decoupling to permit it to recover its fixed costs recognizing that its existing volumetric rate structure is inadequate for the purpose of implementing energy efficiency programs. As a component of the ECR, Kansas Gas Service proposes including an amount that reflects the difference between its total authorized revenues for the residential and general service classes in Docket No. 06-KGSG-1209-RTS, taking normalized weather into account, and the revenues it is currently collecting for those classes, also adjusted for weather. The difference in the total revenue levels for the respective classes, exclusive of amounts authorized for the Gas System Reliability Surcharge will be included as a component of the ECR in the decoupling adjustment factor.

33. The ECR will be determined annually during a period coinciding with its weather normalization adjustment that is calculated using data through the end of February each year. Kansas Gas Service anticipates that the first ECR filing will represent less than a full year's recovery. The monthly revenue apportionment of the total revenue authorized in KGS' last base rate proceeding will be used to determine the decoupling revenue adjustment during the initial partial year recovery and is restated below:

January	\$ 28,945,144
February	\$ 25,616,432
March	\$ 20,607,241
April	\$ 14,893,449
May	\$ 11,400,442
June	\$ 8,865,320
July	\$ 8,907,246
August	\$ 8,578,683
September	\$ 8,505,739
October	\$ 8,751,725
November	\$ 13,354,278
<u>December</u>	<u>\$ 23,687,994</u>
Total	\$182,113,692

34. Assuming a twelve month period were in effect for the first year the energy efficiency programs were offered and using the most recent twelve month revenue information, the ECR for the residential class would produce an approximate monthly surcharge in the amount of \$0.70; it would equal a monthly surcharge in the amount of \$5.80 for the general sales service class.

### **Decoupling**

35. The decoupling mechanism in this case is an essential aspect of this application to initiate energy efficiency programs. In the 441 Docket, the Commission

correctly recognized it is essential to address the throughput incentive to avoid loss of margins that result from energy efficiency programs.<sup>3</sup> The Commission also noted that a lack of revenue from declining customer usage was a serious problem.<sup>4</sup> As a result, the Commission indicated it would consider full decoupling as a preferred method and would consider decoupling proposals made in conjunction with energy efficiency programs.<sup>5</sup> To this end, Kansas Gas Service has constructed its application to seek decoupling in conjunction with its proposed energy efficiency programs.

36. In addition, Kansas Gas Service has chosen to implement the Efficiency Kansas program. This program is being funded by the ARRA. Section 410 (a) (1) of the ARRA provides that there be a policy in place to (1) ensure utility financial incentives are aligned with helping customers use energy more efficiently; (2) provide utilities with timely cost recovery associated with cost-effective efficiency savings and (3) provide utilities with a timely earnings opportunity associated with cost-effective savings. As such, Section 410 strongly supports rate design mechanisms like decoupling as part of the appropriation that has made Efficiency Kansas and other State Grant Programs possible. Accordingly, decoupling is a proper course of action for a natural gas utility implementing the Efficiency Kansas program.

37. Decoupling in this instance will provide a strong incentive for pursuing the successful implementation of the programs advanced in this docket and their aim of reducing usage. Under the decoupling proposals, customers will still have control over their monthly gas consumption. Finally, with the implementation of decoupling,

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<sup>3</sup> Final Order, para. 45, at 15, in Docket No. 08-GIMX-441-GIV (November 14, 2008).

<sup>4</sup> Id. at para. 57, at 19.

<sup>5</sup> Id. at para. 70 at 24.

customer interests will be aligned with shareholders to reduce the disincentive to encourage conservation.

#### **Generally Accepted Accounting Principles**

38. Kansas Gas Service is requesting expressed accounting authority to permit it to defer monthly its program costs and recognize monthly decoupling revenue consistent with GAAP. This would allow Kansas Gas Service to account for actual program costs and decoupling revenue used to calculate the recovery surcharge. At the time of its annual ECR filing, the program cost deferred and decoupling revenue recognized through February will be included in the calculation of the surcharge and billed to applicable customers. Each year the surcharge would be reconciled to balance with the amount of revenue to cover program costs and decoupling.

#### **KCC Reporting**

39. Consistent with Docket 442, Kansas Gas Service proposes to make semi-annual interim reports for its energy efficiency programs. Kansas Gas Service will report participation levels and energy savings, together with comparisons to the expected goals. Kansas Gas Service is also prepared to make monthly filings with the Commission to reflect the status of accounts under the Efficiency Kansas program.

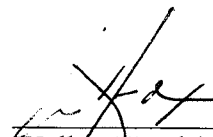
### **III. CONCLUSION**

40. This application presents Kansas Gas Service's proposal to implement a comprehensive set of the energy efficiency programs, including the Efficiency Kansas offering provided in collaboration with the State Energy Office, an education program and a series of programs designed to reduce natural gas and energy consumption. These programs address the Energy Efficiency and Conservation goals of the Commission in

Docket No. 08-GIMX-442-GIV and the cost recovery components of Docket No. 08-GIMX-441-GIV, including the need to address the “throughput incentive” for natural gas utilities through full decoupling. The application aligns the interests of Kansas Gas Service customers in having energy efficiency programs with the shareholders need to maintain stabilized revenues with reduced consumption. Kansas Gas Service is eager to move forward with its Energy Conservation and Ratemaking Efficiency Plan and is hopeful its application will be approved in all respects.

WHEREFORE, Kansas Gas Service, a division of ONEOK, Inc., prays that its application be granted and for such further relief as the Commission deems appropriate.

Respectively Submitted,  
KANSAS GAS SERVICE,  
A DIVISION OF ONEOK



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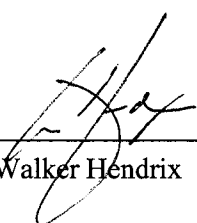
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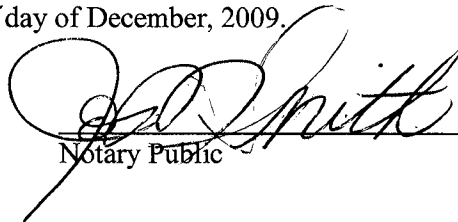
**VERIFICATION**

STATE OF KANSAS        )  
  ) ss  
COUNTY OF JOHNSON    )

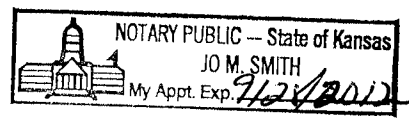
Walker Hendrix of lawful age, being first duly sworn upon oath, deposes and states:  
That he is an attorney for Kansas Gas Service, a division of ONEOK, Inc.; that he has read the  
above and foregoing *Application* and that the statements therein contained are true according to  
his knowledge, information and belief.

  
\_\_\_\_\_  
Walker Hendrix

Subscribed and sworn before me this 18<sup>th</sup> day of December, 2009.

  
\_\_\_\_\_  
Notary Public

My Appointment Expires: 9/28/2012



**BEFORE THE  
KANSAS CORPORATION COMMISSION**

**In the Matter of the Application of Kansas )  
Gas Service, a Division of ONEOK, Inc., for )  
Approval to Implement the Efficiency Kansas )  
Energy Efficiency Program, to Implement )  
Natural Gas Energy Efficiency Programs to )  
Improve building and Equipment Efficiency )  
And to Educate about Efficient Energy Usage, )  
To Provide for Program Cost Recovery Through )  
A Rider Mechanism, to Establish Administrative )  
Charges and a Program initiation Fee, Permit )  
The Implementation of a Revenue Decoupling )  
Mechanism, and Appropriate Accounting )  
Authority to Defer Expenses and Revenues )  
Associated with the Filing**

**Docket No. 10-KGSG-421-TAR**

**DIRECT TESTIMONY OF  
BRADLEY O. DIXON  
ON BEHALF OF  
KANSAS GAS SERVICE,  
A DIVISION OF ONEOK, INC.**



1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Bradley O. Dixon. My business address is 7421 West 129<sup>th</sup> Street, Overland  
3 Park, Kansas, 66213.

4 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

5 A. I am President of Kansas Gas Service, a division of ONEOK, Inc. (“Kansas Gas Service”  
6 or the “Company”).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
8 **PROFESSIONAL EXPERIENCE.**

9 A. I received a Bachelor of Business Administration Degree from Washburn University in  
10 1975. Since that time, I have been primarily employed in the utility industry. I held  
11 various positions in the accounting, customer service and gas supply areas of Western  
12 Resources, Inc. In December 1997, I became an employee of Kansas Gas Service. I  
13 initially served as Director of Gas Supply with responsibility for the administration,  
14 acquisition, and negotiation of new gas supply, transportation, and storage contracts for  
15 the Company. I subsequently became Vice President, Western Region, Transmission and  
16 Gas Supply with responsibility for the distribution operations of the western region of  
17 Kansas Gas Service. While in that position, I assumed responsibilities related to the Gas  
18 Supply, Transmission Operations, Transportation Services and FERC Regulatory  
19 Departments of Kansas Gas Service. In January 2005, I was appointed to my current  
20 position.

21 **Q. HAVE YOU TESTIFIED BEFORE THE KANSAS CORPORATION**  
22 **COMMISSION?**

1 A. Yes. I testified before this Commission in Docket No. 98-KGSG-475-CON. I also  
2 submitted pre-filed testimony in Docket No. 03-KGSG-602-RTS, and in our latest rate  
3 case, Docket No. 06-KGSG-1209-RTS.

4 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

5 A. The purpose of my testimony is to provide an overview of the Company's request to  
6 participate in the Efficiency Kansas (EK) program and its proposal to offer a variety of  
7 energy efficiency programs under the name, Step ONE. I will discuss Kansas Gas  
8 Service's commitment to promote energy conservation and identify those resources we  
9 will use to carry out this new initiative.

10 **Q. PLEASE IDENTIFY AND BRIEFLY SUMMARIZE THE SCOPE OF**  
11 **TESTIMONY OF OTHER WITNESSES APPEARING ON BEHALF OF KANSAS**  
12 **GAS SERVICE.**

13 A. Mr. Paul H. Raab provides a comprehensive overview of the proposed Step ONE  
14 programs, including the application of all Commission adopted cost benefit calculations.  
15 Mr. Raab's testimony, along with his cost benefit tests, incorporates Kansas Gas  
16 Services' budgeted program costs, as well as his assumptions concerning participation  
17 rates. His testimony follows the requirements for submission of energy efficiency  
18 programs as contained in the Commission's order in Docket No. 08-GIMX-441-GIV.  
19 Mr. Raab also provides a thorough discussion of the policy implications supporting the  
20 Company's proposal to decouple its rates.

21 Mr. David N. Dittmore sponsors testimony supporting the overall Kansas Gas Service  
22 budget for both of these programs. Mr. Dittmore will also sponsor testimony supporting  
' the calculation of the Energy Cost Rider (ECR), which includes both energy efficiency

1 program costs as well as a revenue decoupling component. He will also explain why  
2 Kansas Gas Service requires adoption of this mechanism in order to implement the two  
3 programs. Mr. Dittmore sponsors the proposed tariffs supporting implementation of the  
4 programs and the Memorandum of Agreement (MOA) under which Kansas Gas Service  
5 will participate in the EK program

6 **Q. PLEASE DISCUSS KANSAS GAS SERVICE’S COMMITMENT TO**  
7 **ENERGY EFFICIENCY.**

8 **A.** Through a number of procedural orders, the Commission has encouraged utilities to  
9 implement cost effective energy conservation measures. In its initial order in Docket  
10 No. 08-GIMX-442-GIV, the Commission stated its desire to “...work collaboratively  
11 with utilities and other entities to encourage, facilitate and guide current and future  
12 energy efficiency programs.” Kansas Gas Service has actively participated in various  
13 dockets to address energy efficiency policy issues, as well as collaborative meetings held  
14 to discuss the development of the EK program.

15 Kansas Gas Service proposes to be an active participant in the EK program under  
16 Option 1 as set forth in the Efficiency Kansas Program Manual dated November 12,  
17 2009. Under Option 1, Kansas Gas Service would remit payments to the Commission  
18 upon receipt of EK payments from customers. Kansas Gas Service has met with the  
19 State Energy Office (SEO) and Utilities Division staff on a number of occasions to  
20 discuss implementing rules and procedures. These meetings culminated in the signing of  
21 a Joint MOA that identifies the roles and responsibilities of Efficiency Kansas  
22 stakeholders. As explained by Mr. Dittmore, the MOA becomes effective with  
, Commission approval of the filed tariffs attached to his testimony.

1 Kansas Gas Service is committed to a successful partnership with the SEO in the  
2 implementation of the EK program. There will likely be unforeseen issues that arise  
3 during the initial phase of the program. Kansas Gas Service will work with SEO to  
4 achieve a mutually satisfactory resolution of these issues as they arise.

5 **Q. EARLIER IN YOUR TESTIMONY YOU INDICATED THAT ADOPTION OF**  
6 **THE ECR MECHANISM, INCORPORATING REVENUE DECOUPLING, IS**  
7 **ESSENTIAL TO THE IMPLEMENTATION OF THESE PROGRAMS. WOULD**  
8 **YOU PLEASE CONTINUE TO EXPLAIN WHY THE ECR MECHANISM IS**  
9 **REQUIRED TO LAUNCH THE PROGRAMS?**

10 A. An essential component of our request is the approval of the proposed Energy  
11 Conservation Rider (ECR). The ECR proposal will permit Kansas Gas Service to  
12 contemporaneously recover its costs for the EK and Step ONE programs and allow for  
13 the decoupling of our Residential and General Sales Service rates through a fixed  
14 monthly charge. Approval of the ECR is necessary to properly align our financial  
15 incentives with those of our customers in the provision of energy conservation programs.  
16 As fully discussed later in Mr. Dittmore's testimony, the ECR incorporates both  
17 program cost recovery as well as a revenue decoupling component. Our request to  
18 implement the EK and Step ONE programs is contingent upon the Commission's  
19 adoption of the ECR.

20 **Q. PLEASE IDENTIFY THE KANSAS GAS SERVICE RESOURCES THAT WILL**  
21 **BE UTILIZED TO ADMINISTER THE EK PROGRAM.**

22 A. Kansas Gas Service will utilize a dedicated Manager of Energy Conservation to oversee  
3 and administer the delivery of the EK program as well as the Step One programs. This

1 position will be responsible either directly or through subordinates for the following  
2 tasks:

- 3           ➤ Oversight of customer communications,
- 4           ➤ Oversight of EK marketing efforts,
- 5           ➤ Customer eligibility confirmation
- 6           ➤ Communicate energy conservation status, ensure requisite contracts are  
7           signed, and receive project verification,
- 8           ➤ Cash payments and receipts,
- 9           ➤ Customer accounting and Commission reporting
- 10          ➤ Oversight of customer collection efforts for outstanding EK balances.

11           The listing above does not represent all of the functions that the Kansas Gas  
12 Service EK Staff will perform; instead it is designed to represent the primary scope of  
13 work required in the EK MOA. Kansas Gas Service will also assist customers in  
14 arranging an energy audit for qualifying customers, discuss audit findings with the SEO  
15 and communicate SEO's approval or rejection of audit results to the customer.

16           In addition to a dedicated Manager, Kansas Gas Service anticipates the use of a  
17 Supervisor of Customer Development and two Energy Conservation Analysts. The latter  
18 individuals will assist the Manager and Supervisor in carrying out the tasks identified  
19 above. The level of Kansas Gas Service resources needed to implement EK is uncertain  
20 at this point since to some extent it will be a function of the level of customer  
21 participation. The resources necessary to administer the program will increase with the  
22 growth in customer participation. One of the tasks that will increase in direct proportion

1 with the level of EK participation is the customer billing and Commission reporting  
2 functions.

3 These same employees will also be responsible for the administration of the Step  
4 ONE programs. The Manager of Energy Conservation will be responsible for monitoring  
5 participation levels, verifying that rebate applications have met the established  
6 requirements, ensuring bill credits are appropriately posted, oversight over Step ONE  
7 marketing efforts and Commission reporting. The Supervisor of Energy Conservation  
8 and Energy Conservation Analysts will assist in these efforts.

9 **Q WILL OTHER KANSAS GAS SERVICE EMPLOYEES BE INVOLVED IN THE**  
10 **IMPLEMENTATION OF THE EK AND STEP ONE PROGRAMS?**

11 **A.** Yes. I have highlighted these four positions as they will have the primary responsibility  
12 for program implementation. The costs for these individuals will be recovered through  
13 the ECR mechanism as explained in the testimony of Mr. Dittmore. However, there are  
14 other Kansas Gas Service employees who will be heavily involved in the deployment of  
15 our programs. For example, existing Kansas Gas Service employees will be responsible  
16 for implementing the Education program. The Regulatory department will provide input  
17 into program delivery and be responsible to ensure such programs meet the requirements  
18 and objectives of the Commission. These tasks will be performed with existing  
19 resources, thus there are no incremental costs associated with the internal labor. We are  
20 requesting recovery of incremental labor costs associated with these programs, but we  
21 have not included any allocated labor costs of existing employees since, in theory, these  
22 costs are being recovered in base rates.

1       **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE APPLICATION**  
2       **TO IMPLEMENT ENERGY EFFICIENCY PROGRAMS?**

3       **A.** This application represents the first request of Kansas Gas Service to implement energy  
4       efficiency measures and we are eager to offer opportunities to our customers to conserve  
5       energy, thus reducing their overall energy costs, consistent with public policy goals of the  
6       Commission.

7       **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

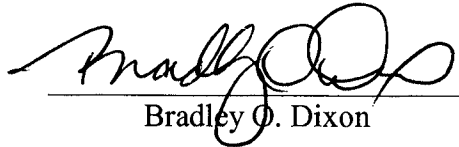
8       **A.** Yes.

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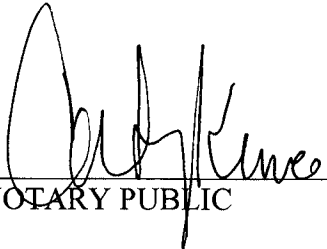
**VERIFICATION**

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF JOHNSON            )

Bradley Dixon, being duly sworn upon his oath, deposes and states that he is President for Kansas Gas Service, a Division of ONEOK, 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.

  
\_\_\_\_\_  
Bradley O. Dixon

Subscribed and sworn to before me this 18<sup>th</sup> day of December 2009.

  
\_\_\_\_\_  
NOTARY PUBLIC

My appointment Expires:

11/02/2013