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 Adjustment of its Natural Gas Rates in the State of Kansas.	))))	Docket No. 24-KGSG-610 - RTS

PUBLIC DIRECT TESTIMONY

OF

LORNA M. EATON

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

MARCH 1, 2024

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DOCKET NO. 24-KGSG-___-RTS

I. Position and Qualifications

Q. Please state your name and business address.

A. My name is Lorna M. Eaton, and my business address is 7421 W. 129th Street, Overland Park, Kansas, 66213.

Q. By whom are you employed and in what capacity?

A. I am employed by Kansas Gas Service, a division of ONE Gas Inc. ("KGS" or the "Company"), as a Manager in the Rates and Regulatory Department.

Q. Please describe your education and professional experience.

A. I began my employment with Kansas Gas Service in 2000 as an Accountant in the General Accounting Department and then moved to the Financial Planning Department as a Budget Analyst. In 2010, I joined the Rates and Regulatory Department as a Rates Analyst and began my current position in June 2015. I earned a Bachelor of Science degree in Geology from Kansas State University.

Q. Was this testimony prepared by you or under your direct supervision?

A. Yes, it was.

Q. Have you previously testified before the Kansas Corporation Commission ("Commission" or "KCC")?

A. Yes. I have provided written testimony on numerous occasions. A list of the specific dockets is available upon request.

II. Executive Summary

Q. Please summarize the key issue(s) you address.

A. First, I will be addressing the requirements set out in Docket No. 19-KGSG-194-CON ("19-194 Docket") which approved the Privatization Contract ("Contract") between KGS and Fort Riley. I will discuss the revenue recorded during the test year and the adjustment to the revenue contained within Adjustment to Income Statement ("IS") 11, the capital investments and accumulated depreciation associated with the Contract, which is included within the revenue requirement with Adjustment to Working Capital ("WC") 2. I will also review the expenses that can be directly attributed to serving Fort Riley and demonstrate that the fully adjusted test year revenues attributed to Fort Riley exceed the Commission's authorized return on net investments and expense of cost of service as required by the Commission in the 19-194 Docket.

Secondly, I will discuss the Cyber Security Tracker that was approved in Docket No. 18-KGSG-560-RTS ("18-560 Docket"). This tracker allowed the Company to defer expenses related to the cost the Company incurs to secure the system and protect customer data, Company data and our pipeline infrastructure. KGS is requesting the continuation of the Cyber Security Tracker which had a sunset provision of five (5) years. I am also sponsoring the adjustment that amortizes the deferred amount associated with the tracker approved in the 18-560 Docket and sets the new benchmark level of cyber security expenses in base rates.

Third, I will provide a discussion related to the Precedential Order from the Commission on incentive compensation established in Docket No. 19-ATMG-525-RTS ("19-525 Docket") and why KGS's incentive compensation recovery requested in this case falls within the exception to that precedent, which allows for recovery of incentive compensation if such can be show to directly provide benefits to customers.

Fourth, I am sponsoring certain pro forma adjustments necessary to: normalize the test year; reflect known and measurable post-test-year changes; exclude certain test-year costs; normalize other test-year costs; and to include costs previously deferred pursuant to Commission accounting orders. My testimony presents financial and accounting data taken directly from KGS's accounting records.

Lastly, I am sponsoring Section 18 of the Minimum Filing Requirements ("MFR") with revisions to the Company's Rate Schedules ("Rate Schedules") and General Terms and Conditions ("GTC"), collectively referred to as "tariffs," which reflect rates recommended and supported by Company witness Mr. Paul Raab, as well as the addition of Indices 51 – Annual Performance-based Rate Adjustment ("APRA") as discussed by Company witness Ms. Janet Buchanan. I will be sponsoring tariff changes to Index 5, Index 6, Index 13, Index 20, Index 43, and administrative updates to Index 13 - Rate Schedule Index and Index 15 - Contents.

III. Fort Riley Privatization Contract

Q. Can you please provide some background on the Fort Riley Privatization Contract?

A. On September 27, 2018, KGS entered a privatization contract ("Contract") with the Defense Logistics Agency ("DLA") to take ownership of the natural gas distribution system at Fort Riley, Kansas. The Contract established the terms, conditions, rates, charges and costs of KGS's ownership and operation of the system. KGS filed for approval of the Contract in the 19-194 Docket which was approved on May 16, 2019. As part of the Commission's approval of the Contract, KGS is required to demonstrate that KGS sales and transportation customers are not being harmed by the Contract.

Q. What are the specific requirements that KGS must meet per the Settlement Agreement in the 19-194 Docket?

A. KGS agreed to separately track and account for the direct, incremental capital investments, expenses, and revenue associated with providing service to Fort Riley. In addition to providing the supporting accounting information and the fully adjusted test year amounts included within this rate filing, KGS must provide a determination of whether the fully adjusted test year Contract revenues exceed the Commission authorized return on net investments and expense cost of service items.

Q. What adjustments did KGS make to the Fort Riley capital investments?

A. Within the revenue requirement, KGS included the initial purchase price of the Fort Riley assets and additional investments made by KGS since the acquisition. Offsetting the plant in service is the accumulated reserve associated with the plant and any retirements of the legacy assets that were replaced. KGS also included construction work in progress ("CWIP") as the projects are expected to be in service within 12 months of the test year. The Fort Riley assets, as adjusted, are included in the revenue requirement in Adjustment WC 2. KGS annualized the depreciation expense related to the pro forma Fort Riley plant in service in Adjustment IS 11.

Q. Please continue with a discussion of the adjustment of the revenue associated with providing service to Fort Riley.

A. KGS bills Fort Riley a Contract Rate Charge ("CRC") for the provision of the privatized natural gas distribution service. The CRC includes a return on KGS's undepreciated investment in the distribution system assets utilizing the current GSRS rate of return, recovery of operation and maintenance costs based on KGS's system average costs, allocated administrative and general costs, and depreciation expense. The CRC is recalculated on an annual basis. For purposes of calculating the revenue requirement, KGS annualized the most recent CRC recalculation and included the increase in revenue attributed to Fort Riley in Adjustment IS 11.

Q. Can you discuss the adjustments KGS made to the incremental operations and maintenance ("O&M") expenses related to Fort Riley?

A. KGS made one adjustment to the incremental expenses that are attributed to Fort Riley. In Adjustment IS 29, which is described later in my testimony, KGS annualized payroll costs during the test year. The annualization of labor expense included payroll directly attributed to Fort Riley.

Q. Do the fully adjusted test year Contract revenues exceed the Commission's authorized return of net investments and expenses?

A. Yes. CONFIDENTIAL Table LME-1 demonstrates that the adjusted revenue requirement for Fort Riley is less than the adjusted revenue included in this rate filing.

Fort Riley Revenue Calculation			**CONFIDENTIAL Table LME-1**	
(A)			**(B)**	
Rate Base				
1 Original Plant	***	$	[redacted]	***
2 Additional Plant	***	$		***
3 CWIP	***	$		***
4 *Retirements*	***	$		***
5 *Less: Accumulated Depreciation*	***	$		***
6 Net Plant In Service		$	8,275,102	
7 Carrying Charge			8.6012%	
8 Pre-Tax Required Return		$	711,758	
Adjusted Incremental Expenses				
9 Depreciation Expense	***	$	[redacted]	***
10 Financing Expense	***	$		***
11 Operation and Maintenance Expense	***	$		***
12 Total Ft. Riley Incremental Expenses		$	1,041,884	
13 Total Ft. Riley Revenue Requirement		$	1,753,642	
14 Adjusted Fort Riley Revenue included in Rev Requirement		$	1,764,556	
15 Fort Riley Revenue Greater than Rev Requirement		$	10,914	

Q. Can KGS attest that KGS customers are benefiting from the Contract?

A. Yes. KGS customers are benefiting from the Contract. As shown in CONFIDENTIAL Table LME-1, the Fort Riley contract is providing more revenue than the pro forma revenue requirement calculation for Fort Riley. Therefore, the rates for other KGS customers will be less than they otherwise would have been because the revenue received from the Contract is greater than the revenue requirement for Fort Riley.

IV. Cyber Security Tracker

Q. Can you provide a general background of the Cyber Security Tracker?

A. In the 18-560 Docket, KGS was granted approval of a Cyber Security Tracker, which allowed the Company to defer the costs related to cyber security expense either over or under the amount set in base rates. The approved tracker had a 5-year sunset provision associated with the approval and expired in February 2024.

Q. Why is the Company requesting a continuation of the Cyber Security Tracker?

A. The Company fully expects that expenses associated with cyber security will continue to increase over the next few years to comply with additional regulations and requirements from the Federal Government. Cyber security continues to be of upmost importance to ONE Gas and KGS. It is the Company's desire to continue to protect customer data, Company data and pipeline assets from the ever-increasing threats of cyber attackers. As such, KGS is requesting that the Cyber Security Tracker be allowed to be continued.

Q. Can you discuss Adjustment IS 31?

A. Yes. There are two parts to Adjustment IS 31. First, the adjustment establishes the annual amortization amount related to the cyber security expense that was deferred through November 2023, plus estimated amounts for December 2023 and January 2024. Second, it removes the deferral related to the cyber security tracker during the test year in order to reset the base level of cyber security expense for the purpose of setting base rates. The net of these two parts of the adjustments is an increase in expense of $606,212. For purposes of the extension of the cyber security expense tracker, the new cyber security expense in base rates is $1,068,270.

Q. Will KGS need the Cyber Security Tracker if the Annual Performance-based Rate Adjustment ("APRA") Mechanism is approved?

A. No. If the APRA mechanism is approved, changes to the costs associated with cyber security will be incorporated into the annual rate mechanism and the tracker would no longer be necessary. However, KGS would still need to continue the amortization of deferred expenses until the expenses are fully amortized.

V. The Commission's Precedent on Incentive Compensation

Q. Have you reviewed the Commission's precedent on incentive compensation?

A. Yes. In preparing for this case, I reviewed KGS's prior testimony on incentive compensation as well as the precedential order issued by the Commission in the 19-525 Docket.

Q. Can you briefly describe that precedential order?

A. During Atmos Energy Corporation's 2019 – 2020 rate case, the Commission declared a portion of its order precedential as it related to incentive compensation. In particular, the Commission stated:

> The Commission concludes there is no reason to revisit its prior decisions on incentive compensation. Likewise, the Commission concludes there is no reason to revisit its decision announced in the 10-415 Docket to disallow incentive programs that focus on the financial aspect, rather than operational aspects. Accordingly, the Commission reaffirms its intent to disallow the costs of management incentive programs that focus on financial criteria. The Commission adopts Staff's recommendation to remove 100% of Atmos' short term Management Incentive Plan expenses, 50% of the time lapse portion of the Long Term Incentive Plan, and 100% of the expense associated with the Performance Based portion of the Long Term Incentive Plans

> allocated to Atmos's Kansas operations. Pursuant to K.S.A. 77-415(b), the Commission designates this paragraph as precedential.

Q. Has KGS worked to address this precedential order in this case?

A. Yes. KGS understands the Commission's precedential order to apply to officer and executive incentive compensation. KGS developed its incentive compensation adjustment to align with Commission precedent, as it had been applied to KGS in prior rate cases.

Q. Why do you say, "as applied to KGS?"

A. Commission Staff has applied the framework from Docket No. 10-KCPE-415-RTS ("10-415 Docket") to KGS in the past. As Commission Staff noted in KGS's last rate case, "KGS's executive incentive compensation should be analyzed consistent with the decision in the 10-415 and [12-KCPE-764-RTS] Dockets because the facts and circumstances of those cases are essentially the same as presented before the Commission in this case."[1]

Q. How does this relate to the precedential order?

A. Based on KGS's understanding of the precedential order, the costs of incentive compensation awarded to officers and executives should be excluded if they are tied to financial metrics which singularly benefit shareholders.

Q. Why do you say "singularly" benefit shareholders?

A. That was the basis for the Commission's decision in the 10-415 Docket. In particular, the Commission stated: "To the extent [incentive compensation] cause executives to focus singularly on financial aspects of the business rather than operational, shareholders should be responsible for those payouts."[2]

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[1] Testimony of Kristina Luke-Fry, 18-KGSG-560-RTS, p. 30.

[2] Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests, Docket No. 10-KCPE-415-RTS, pp. 50 through 51 (Nov. 22, 2010).

Q. Is KGS requesting to recover a portion of financially-tied incentive compensation for Officers and Executives?

A. Yes. Kansas Gas Service is requesting the Commission allow it to recover half of the financial portion of officer and executive incentive compensation.

Q. Why is KGS making this request?

A. Since the Commission issued its precedential order in the 19-525 Docket, KGS was impacted by two events that clearly demonstrate how the financial metrics used by KGS to determine incentive compensation benefit both shareholders and customers.

First, Winter Storm Uri placed a liquidity crisis at KGS's door. As Mr. Smith testifies, ONE Gas needed to raise cash quickly in order to purchase the natural gas its customers needed during the extreme cold temperatures that coincided with unprecedented high prices. ONE Gas' strong balance sheet enabled the Company to secure the financing it needed to withstand the financial stress of Winter Storm Uri, and then work with stakeholders and regulators to securitize those costs.

Second, the COVID-19 pandemic significantly impacted KGS's operations. As Mr. Smith testifies, during the beginning of the COVID-19 pandemic in March 2020, ONE Gas, because of its credit rating, was able to access the debt capital markets while many of its peers with a lower credit rating could not. Since ONE Gas had an "A" credit rating at the start of the COVID-19 pandemic, it was able to take advantage of market conditions and keep borrowing costs low for customers. During this time, KGS saw contract labor shortages, delayed delivery times for materials, lower available quantities of necessary materials and supplies, and fleet vehicle shortages. KGS's priority was to provide safe and reliable service for its customers and the strong credit rating and access to borrowing allowed KGS to continue to prioritize service.

These examples of controlling costs directly and positively impacted both shareholders and customers. The ability to achieve financial metrics in spite of weather emergencies and global pandemics demonstrates how managerial focus on maintaining a strong, stable, and healthy company benefits more than just shareholders.

Q. With both the COVID-19 Pandemic and Winter Storm URI behind us, why do those events remain relevant to the Commission decision in this case?

A. In addition to being recent examples of how quickly financial markets can be impacted by unforeseen events that are outside of a company's direct control, these events demonstrate how the Company's incentive compensation performance factors, including the financial metric, all work together for the benefit of the customers and the Company.

Q. Can you provide examples of operational efficiencies and expense management that impacts the Company's financial metrics and the rates ultimately paid by customers?

A. Yes. From an enterprise perspective, ONE Gas proactively implements or redesigns processes or systems to operate more efficiently and manage costs; thereby, lowering the costs that would otherwise be paid by customers and which also positively impact earnings per share. For example, Company Witness Mr. Sean Postlethwait stated in his Direct Testimony that the Company has implemented the following:

- Identified and adopted automated meter reading technology, central dispatching, and an automated workflow management system integrating several software solutions that improves operational processes for field employees. Using a common work management system also enhances our risk mitigation efforts around data capture and compliance by providing our employees with better tools and information in the field and simplifying work by capturing information once and thus reducing paperwork and opportunity for error;

- Implemented a route work optimization ("RWO") dispatch method which prioritizes and optimizes the field customer service orders and work. This process enhances customer satisfaction as the Company is better able to focus on work requiring customer contact first and work not requiring customer presence performed next. Miscellaneous work that is unknown at the start of the day (such as the need to respond to a leak call) is reserved for special teams not assigned to customer contact work. This process also improves route assignments, reduces drive time, and improves the Company's ability to react to changing work as the day goes on; and
- Established a centralized purchasing department which allows the Company to take advantage of volume discounts through approved vendors who may also provide products and supplies to other ONE Gas divisions. Direct purchases of materials are kept to a minimum.

Additional examples to operate more efficiently and manage costs include:

- Efforts to increase paperless billing enrollment. Paperless billing enrollment has continued to increase since 2017. Approximately 50% of KGS customers are now enrolled in E-bill. This is a direct savings in paper, postage, and printing expenses.
- Redesign of the process for mailing information to customers. The Company studied several factors to optimize customer mailings.. As a result, mailing costs related to billing and account management have been reduced; and
- Implementation of a new web mobile application which allows customers to make payments online, pay by check (one-time ACH), pay by credit card, view/cancel pending check payments, create payment arrangements (including down payments), create a one-time payment extension, view payment history/billing history/consumption history/usage comparison, enroll in paperless billing, terminate service, and display payment locations by list and map, all of which further increase operational efficiencies. Customers prefer multiple ways to do business with KGS, and mobile apps creates a new channel that was not previously available. KGS launched its mobile application, which was available for customer download on both Apple ® and Android ® smartphones, in August of 2015.

These are tangible examples of how innovation and change can influence the costs the Company incurs. When the Company operates in a more cost-conscious manner, earnings per share is positively impacted. At the same time, customers benefit from these cost-conscious decisions. Thus, customers share in the benefits of having employees who are focused on managing costs.

Since the financial metrics in STI and Performance Units in LTI are shown to benefit our customers and are consistent with market studies supported by Ms. Megan Gough's Direct Testimony, the related incentive costs should be shared between the customers and the shareholders.

Q. Are there any other ways customers can share in the benefits of a financially strong and stable company?

A. Yes. As KGS witness Ms. Janet L. Buchanan testifies, the Annual Performance-based Rate Adjustment ("APRA") has a built-in earnings sharing component. If KGS is able to achieve earnings above the dead-band, both customers and shareholders benefit. It's worth noting that customers would receive the overwhelming majority of any excess earnings, with 75% flowing to customers and 25% to ONE Gas shareholders. Moreover, ONE Gas' 25% portion is tied to hitting operational performance metrics. If ONE Gas does not meet certain criteria, then the customers receive more. In this respect, incentive compensation tied to financial performance directly benefits customers. Because a portion of an officer or executive compensation would be tied to financial performance, and because customers share in the benefits of the Company's financial health, so too should they share in the costs of this compensation.

Q. Can you briefly summarize KGS's incentive compensation request?

A. KGS understands the Commission's precedential order issued in the 19-525 Docket to exclude portions of officer and executive incentive compensation if it is tied to financial metrics unless it can be shown that customers benefit in some manner or if customer benefit factors are used to determine incentive compensation. KGS has demonstrated both customers and shareholders benefited from ONE Gas's financial strength and stability during the COVID pandemic and Winter Storm Uri. Likewise, KGS's ARPA allows for customers to receive the overwhelming majority of benefits if

KGS hits financial performance metrics. Because KGS's incentive compensation structure benefits both customers and shareholders if financial metrics are achieved, both customers and shareholders should equally share in the costs of officer and executive financially-measured incentive compensation. KGS has shown in this filing how maintaining the financial strength, stability and integrity of the Company has and will continue to benefit customers.

VI. Income Statement Adjustments

Q. Please identify the income statement adjustments you are sponsoring that are contained within Section 9 of the Minimum Filing Requirements.

A. I am sponsoring IS 10, IS 11, IS 29 through IS 36 and IS 39. Adjustment IS 11 was discussed in Section III of my testimony on Fort Riley and Adjustment IS 30 was discussed in Section IV of my testimony on cyber security.

Q. Please discuss Adjustment IS 10.

A. Adjustment IS 10 removes interest that KGS is recording related to the Negotiated Gas Cost Penalty amount that is being paid in monthly installments to KGS per the Unanimous Settlement Agreement approved in Docket No. 21-KGSG-332-GIG. The adjustment is a decrease to revenue of $230,252.

Q. Please discuss Adjustment IS 29.

A. Adjustment IS 29 increases test period Operations and Maintenance ("O&M") costs by $4,775,550. This adjustment is necessary to annualize payroll and payroll tax costs during the test period. This adjustment is also necessary to reflect post-test period wage changes. The adjustment incorporates the following calculations for both direct payroll and corporate allocated payroll:

- Annualizes costs of employees terminating and transferring employment during the test period and for known changes through December 2023;

- Annualizes costs of employees hired during the test period;
- Annualizes estimated payroll costs for union wage increases that should become effective on or around July 1, 2024;
- Annualizes payroll costs for union wage increases effective during the test period;
- Annualizes payroll costs for non-union wage increases that became effective on or before December 31, 2023;
- Annualizes payroll taxes based upon the above calculations;
- Annualizes corresponding 401k costs based on the above calculations;
- Annualizes the corresponding defined contribution retirement plan costs based on the above calculations.

The adjustment is spread to various O&M accounts based upon test period payroll distribution. This adjustment has been calculated consistent with the method used in prior cases as well as the method used by Commission Staff.

Q. Please discuss Adjustment IS 30.

A. On November 21, 2017, KGS was granted approval to defer and recover costs incurred after January 1, 2017, associated with its obligation to perform environmental investigation, testing, monitoring, remediating, and other work performed at Manufactured Gas Plant ("MGP") sites in Docket No. 17-KGSG-455-ACT ("17-455 Docket"). Actual expenses that occurred since January 1, 2017, as established in the 17-455 Docket, were recorded as a regulatory asset to KGS's books. This adjustment sets up the amortization of the second tranche of expenses that have been incurred over a 15-year period as established in the 17-455 Docket. The costs incurred since KGS's previous rate case, 18-560 Docket, are further described and supported in the testimony of Company witness Mr. Todd Hohn. The total of the new tranche of MGP amortization is an increase to operating expense of $902,293.

Q. Please explain Adjustment IS 32.

A. Adjustment IS 32 decreases Pension and Other Post-Employment Benefit ("OPEB") expenses by $5,795,720 to reflect the known and measurable 2023 expense, net of capitalization for these items. The adjustment was computed by comparing the actual total year 2023 expense to those costs expensed in the test period which ended in September 2023. The costs expensed in the test period were established in the 18-560 Docket.

Q. Please explain how the costs were established in the 18-560 Docket.

A. In Docket No. 10-KGSG-130-ACT ("10-130 Docket"), the KCC issued an accounting order that provided for an establishment of a regulatory asset or liability to track the difference between the amount of pension and OPEB costs in base rates as compared to the total expenses recorded according to Generally Accepted Accounting Principles ("GAAP"), referred to as Tracker 1. As such, it is necessary for the amount of pension and OPEB costs to be explicitly stated within a rate case order. This amount was stated in the 18-560 Docket.

Q. Are you proposing a new benchmark to be established for the deferral of pension and OPEB costs?

A. No. If KGS receives approval of the request for the APRA tariff, then the costs associated with Pension and OPEB would be adjusted as part of the components of the APRA calculation and KGS would no longer require a benchmark. However, if the APRA is not approved, KGS would propose a benchmark that is in accordance with the Commission's Order in the 10-130 Docket. For purposes of the deferral mechanisms, the new benchmarks KGS proposes to be incorporated into rates would be:

Pension Expense:	$3,685,696
OPEB Expense:	$0

Q. Please discuss why the OPEB Expense included in the benchmark is $0.

A. Per the Order in Docket No. 07-GIMX-1041-GIV ("07-1041 Docket") issued on July 14, 2010, paragraph 9 states that when a Pension or OPEB cost is negative during a test year, then the expense level set should be $0. KGS's OPEB costs for 2023 were negative, therefore KGS is proposing that the benchmark for OPEB be set to $0.

Q. Please continue with an explanation of Adjustment IS 33.

A. Adjustment IS 33 first removes the current amortization for deferred pension and OPEB costs from the test year. This amortization amount was established in the 18-560 Docket. Then, the adjustment establishes a new three-year amortization amount for the projected accumulated balance as of December 2023 for the Pension and OPEB costs. As discussed above, these costs were deferred pursuant to the KCC's Order in the 10-130 Docket. The specific balances of the deferred Pension and OPEB balances are shown below:

Pension:	$ (9,994,831)
OPEB	$ (4,044,096)
Total	$ (14,038,927)
Divided by 3 Years	$ (4,679,642)

Q. Please explain why both the balance of the Pension and OPEB deferral is negative?

A. The annual OPEB and Pension costs have continued to decline from those included in the 18-560 Docket; therefore, this reduction in costs is reflected as a regulatory liability on the books of KGS. Additionally, KGS continues to amortize the amounts set out in the 18-560 Docket, which also reduced the balances in those accounts.

Q. Could you please explain why KGS is recommending that the accumulated pension/OPEB expenses be amortized over three years?

A. KGS is proposing that the amortization amount be equivalent to a three-year amortization period. The goal of amortizing the accumulated pension and OPEB expenses is for there to become a level set amount so neither the customer nor the Company is harmed by the deferral. Any amount that is amortized above or below the balance will be reset in the next base rate case. The three-year amortization period strikes a balance on the amount of amortization to be included in base rates.

Q. What is the net effect of this adjustment to operating expense?

A. The net effect of Adjustment IS 33 is a decrease to operating expenses of $3,349,420. This represents a net decrease in the amount of amortization of the Pension and OPEB based on the balances at the end of 2023.

Q. Please continue with an explanation of Adjustment IS 34.

A. Adjustment IS 34 increases pro forma operating expenses $357,116. This adjustment incorporates the estimated costs of this rate case amortized over a three-year period. The actual costs of the rate proceeding shall be incorporated into the final adjustment at the conclusion of this docket.

Q. Please discuss Adjustment IS 35.

A. Adjustment IS 35 normalizes certain lease contracts that will change post test year. First, KGS is removing the revenue that is received from Shared Facilities contracts with Evergy for facilities that Evergy has vacated. Second, KGS is adjusting the lease expense related to the Overland Park Division Office based on estimated lease expense changes. The net of these two adjustments is a decrease to the revenue requirement of $263,263.

Q. Please continue with an explanation of Adjustment IS 36.

A. In the 18-560 Docket, KGS was required to refund to their customers credits associated with the Tax Cut and Jobs Act ("TCJA") of approximately $16.6 million. KGS actually provided approximately $16.8 million in credits to customers. KGS requested and was granted the authority to defer the $247,046 of over-refunded bill credits until a future rate case. Adjustment IS 36 amortizes the $247,046 over a three-year period. This adjustment increases expense by $82,349.

Q. Please explain Adjustment IS 39.

A. KGS is requesting to reinstate the reconnection charge and update the disconnect charge that was suspended as part of the Knock and Collect Waiver Pilot Program, approved on June 19, 2020, in Docket No. 15-GIMX-344-GIV ("15-344 Docket"). KGS incurs costs related to disconnecting and reconnecting customers due to the necessity to physically be at a customer's premises to perform the work. KGS is requesting to increase the disconnect fee to $15 from $5, which is the stated tariff rate in Section 12.05. To calculate this part of the adjustment, KGS multiplied the test year count of disconnects by $10. KGS calculated the adjustment for the reconnections by using the test period reconnections multiplied by the stated tariff rate of $20 in Section 12.06. This adjustment increases revenue by $627,690.

VII. Section 18 of the Minimum Filing Requirements

Q. Please summarize your proposed changes to the Company's rate schedules.

A. I am proposing changes to Index 5 Discontinuation of Service, Index 6 Customer's Obligations, Index 13 Knock and Collect Waiver Pilot Program, and Index 42 Weather Normalization Adjustment Rider. I am proposing language for the addition of Rate

Choice A and Rate Choice B to Index 20 Residential Sales Service as supported in the testimony of Company witness Mr. Paul Raab. I am proposing the cancellation of Index 26 Kansas Gas Supply Sales Service D. Included within Section 18 is the proposed addition of Index 51 Annual Performance-based Rate Adjustment ("APRA") Mechanism as described by Company witness Ms. Janet Buchanan, and an update to the Gas System Reliability Surcharge monthly rates discussed by Company witness Mr. Graham Jaynes. Corresponding with the changes described, KGS is submitting administrative updates to the Index 13 – Rate Schedule Index and Index - 15 Contents.

Q. Please discuss the proposed changes to Index 5 Discontinuation of Service.

A. KGS is revising Section 5.09 Reconnection Charge by adding language to address Customer Reconnection Charges. Unfortunately sometimes a customer tries to prevent KGS from accessing its facilities. This presents a safety concern for KGS. In some circumstances, KGS has to take the additional step of physically disconnecting service at a distribution main. There are costs associated with this additional work. The new language in Section 5.09 would allow the Company to charge a customer these additional costs. If KGS had to physically disconnect their service line from a distribution main because the customer would not allow the Company to access its own equipment, then the customer would be responsible for paying for those additional costs as part of the reconnection process.

Q. What revisions do you propose for Index 6 Customer's Obligations?

A. KGS is adding section 6.04.03 Encroachment and Enclosure Prohibited to Section 6.04 Company Equipment on Customer's Premises. This section provides clarification for the Customer that the Customer may not create, build, erect, or construct any building, structure or any other obstruction over or around the Company's pipeline, facilities, or equipment. If a Customer does construct such an obstruction over the

Company's facilities, the Company may require the Customer to remove the obstruction or KGS may remove the obstruction at the Customer's expense.

Q. Can you continue with a discussion of the proposed changes to Section 6.05?

A. Earlier I discussed Section 5.09, which would allow KGS to recover costs associated with physically disconnecting customers from distribution mains. Section 6.05 places this obligation in the "Customer Obligations" portion of KGS's tariffs. KGS's tariffs already require customers to allow the Company to access its facilities located on customer premises, and allow the Company to disconnect customers if they do not. The new language in Section 6.05 simply links this obligation to the reconnection cost provision I discussed earlier.

Q. What changes are being made related to Index 13 Knock and Collect Waiver Pilot Program?

A. KGS is requesting to reinstate the reconnection charge that was suspended as part of the Knock and Collect Waiver Pilot Program, approved on June 19, 2020, in the 15-344 Docket. The update to the tariff reinstates the disconnection and reconnection fees to the approved amounts that are specified in Schedules 12.05 and 12.06 respectively. KGS is not proposing any changes to Index 12 – Miscellaneous Charges.

Q. Can you explain the updates being proposed to Index 43 – Weather Normalization Adjustment ("WNA") Rider?

A. Yes. Index 43 is being updated to remove language that is no longer relevant to the current WNA calculation. In the 18-560 Docket, KGS added the STk and STt rate schedules to the tariff. The first change cleans up the language related to this transition. The second change specifies that the new Heat Sensitivity Factors and Heating Degree Day normals that are approved in this pending filing will be effective starting in November 2024 corresponding with the estimated time new rates will be effective, syncing up the new rates with the new sensitivity factors and normal degree days. The last change cleans up language that is no longer relevant related to the transition between a five-month weather normalization calculation period and a twelve-month calculation period.

Q. Could you please discuss the addition of Rate Choice A and Rate Choice B to Index 20 Residential Sales Service?

A. Company witness Mr. Paul Raab is proposing a two-tier rate structure for the residential customers based on their usage. Lower usage customers would have a smaller monthly service charge and a higher variable delivery charge, under Rate Choice A. Higher usage customers would have a larger monthly service charge and a lower variable delivery charge, under Rate Choice B. The changes to the Residential Sales Service Tariff delineate the two rate choices that the residential customer may elect, allows for a customer to switch between rate choices at any time during the year, and limits the customer from changing between Rate Choice A and Rate Choice B to once every twelve (12) months.

Q. Please discuss the cancellation of Index 26 – Kansas Gas Supply Sales Service D.

A. Index 26 was closed to new customers on September 15, 2003. KGS served one (1) customer under this rate schedule. That customer has ceased service; accordingly, KGS is requesting the cancellation of this tariff.

Q. Does this conclude your testimony.

A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Lorna M. Eaton, being duly sworn upon her oath, deposes and states that she is the Manager, Rates and Regulatory 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.

Lorna M Eaton

Lorna M. Eaton

Subscribed and sworn to before me this 20th day of February 2024.

NOTARY PUBLIC

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2026

My appointment Expires:
6/5/26