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. 18-KGSG-560 - RTS

DIRECT TESTIMONY

OF

LORNA M. EATON

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

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I. Position and Qualifications

Q. Please state your name and business address.

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

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

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 educational background and professional experience.

A. I received a Bachelor of Science in Geology from Kansas State University in 1996 and worked in the KSU Geology department following graduation. I began my employment with KGS in 2000, as an Accountant in the General Accounting Department and moved to the Financial Planning Department as a Budget Analyst. I joined the Rates and Regulatory Department in 2010 as a Rates Analyst, and began my current position in June 2015.

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

A. Yes, I have I provided written testimony in Dockets 12-KGSG-835-RTS ("835 Docket"), 14-KGSG-111-TAR, 15-KGSG-088-TAR, 16-KGSG-104-TAR, 16-KGSG-491-RTS ("491 Docket") and 18-KGSG-093-TAR ("093 Docket").

II. Executive Summary

Q. What is the purpose of your testimony?

A. I sponsor most of the schedules within the Minimum Filing Requirements ("MFR") pursuant to Kansas Administrative Regulations 82-1-231. 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. I also explain how the costs currently collected through the Gas System Reliability Surcharge ("GSRS") revenues are being moved into base rates and resetting the surcharge to zero. Lastly, I propose a mechanism to track cyber-security expenses.

Q. Could you please identify the test period pro forma adjustments and the witness who is sponsoring each adjustment?

A. Yes. The list below in Table LME-1 identifies each of the pro forma adjustments and the associated sponsoring witness.

Table LME-1

Adj. No.	Descriptions	Increase (Decrease) to Rate Base ($)	Witness
PLT 1	CWIP	23,917,948	Eaton
PLT 2	CWIP Asset Retirement	(4,174,188)	Eaton
PLT 3	Corporate Plant	66,310,258	Goad
PLT 4	Plant Assets - Not Used and Useful	(4,453,250)	Eaton
PLT 5	CNG Facility	(544,688)	Eaton
ADA 1	Acc. Depreciation - Asset Retirement	4,174,188	Eaton
ADA 2	Acc. Depreciation – Corporate Assets	(16,294,218)	Goad

ADA 3	Acc. Depreciation – Plant Assets (Not Used and Useful)	3,399,381	Eaton
ADA 4	Acc. Depreciation – CNG Facility	83,342	Eaton
WC 1	Pre-Payments- Corporate Assets	4,595,306	Goad
WC 2	Long Term Pre-Payments - Corporate Assets	522,245	Goad
WC 3	Accumulated Deferred Income Tax (ADIT) - Associated with Pension/OPEB	54,210,792	Husen
WC 4	ADIT – Reflect Test Year End Balance	(15,623,452)	Husen
WC 5	ADIT - Associated with Pension/OPEB re-measurement	26,604,768	Husen
WC 6	ADIT – Reflect Test Year End Balance re-measurement	(7,667,446)	Husen
WC 7	ADIT – Associated with COGR	7,937,388	Husen
WC 8	ADIT – Associated with COGR re-measurement	3,895,394	Husen
WC 9	ADIT – Corporate	(6,282,479)	Husen
WC 10	ADIT – Corporate Excess ADIT	(3,083,221)	Husen
Adj. No.	**Descriptions**	**Increase (Decrease) to Operating Income ($)**	**Witness**
IS 1	Eliminate Accrued and Unbilled Revenue	(1,216,841)	Eaton
IS 2	Eliminate Deferred WNA Revenue	(19,481,622)	Eaton
IS 3	Eliminate Cost of Gas Revenue and Expenses	0	Eaton
IS 4	Eliminate the Ad Valorem Surcharge Revenue and Expenses	(197,445)	Eaton
IS 5	Eliminate Gas System Reliability Surcharge Revenue	(296,894)	Eaton

IS 6	Test-year Revenue Adjustments (Flex)	126,970	Eaton
IS 7	CNG Revenue Adjustment	(11,467)	Eaton
IS 8	Weather Normalization	12,664,050	Raab
IS 9	Revenue Annualization	307,009	Raab
IS 10	Miscellaneous Service Revenue	998,886	Clements
IS 11	Reclass Interest on Customer Deposits	(303,624)	Clements
IS 12	Eliminate Royalty Fee	9,086,138	Clements
IS 13	GTI Expense	(316,479)	Clements
IS 14	Annualized Depreciation on Pro Forma Plant	(1,280,020)	Jaynes
IS 15	Annualized Depreciation at Proposed Rates	(12,570,240)	Jaynes
IS 16	Clearing Account Adjustment	(95,479)	Jaynes
IS 17	Remove O&M Expenses Related to Unused Plant	41,480	Eaton
IS 18	Insurance Adjustment	(1,306,512)	Eaton
IS 19	Workers Compensation	127,624	Eaton
IS 20	Payroll Adjustment	(1,944,926)	Eaton
IS 21	Adjustment to Employee Medical Reserve	(328,366)	Eaton
IS 22	Charitable Contributions and Excluded Costs	(28,431)	Eaton
IS 23	Miscellaneous out of Period Adjustment	323,582	Eaton
IS 24	Amortization of MGP Expenses	(6,013,536)	Eaton
IS 25	Brehm Storage Cost Adjustment	1,248,371	Eaton
IS 26	Pension/OPEB Cost Adjustments	1,328,672	Eaton
IS 27	Pension/OPEB Amortization	108,302	Eaton
IS 28	Pension/OPEB Savings Sharing	(3,325,367)	Smith
IS 29	Annualized Corporate Depreciation	11,595	Goad
IS 30	Miscellaneous Corporate Adjustments	1,620,449	Davidson

IS 31	Distrigas Adjustment	(1,601,057)	Davidson
IS 32	Normalized Compensation	1,614,721	Davidson
IS 33	Corporate Pension, OPEB and Medical Benefits	(776,225)	Davidson
IS 34	Rate Case Cost Amortization	(171,889)	Eaton
IS 35	Bad Debt Adjustment	591,037	Eaton
IS 36	Income Tax Adjustment	15,643,327	Husen
IS 37	Test Year Revenue Adjustment	937,081	Eaton

III. Compliance with Schedules Required by K.A.R. 82-1-231

Q. What is the test year for this filing?

A. The test year is the twelve-month period ending December 31, 2017. Adjustments have been proposed for known and measurable changes to the test year and to normalize operating results.

Q. How does KGS maintain its books and records?

A. The Company maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts ("USOA") and Generally Accepted Accounting Principles (GAAP).

Q. Which schedules required by K.A.R. 82-1-231 are you sponsoring in this case?

A. I am sponsoring all the schedules except for Schedules 11C through 11H in Section 11, Schedules 12A and 12B in Section 12, and the Schedules in Section 18. Schedules 11C through 11H in Section 11 are sponsored by company witness Mr. Jeff Husen. Schedules 12 A and B, are sponsored by company witness Ms. Ashley Davidson and the schedules in Section 18 are sponsored by company Mr. Justin Clements.

Specifically, I am sponsoring schedules in the following sections of the MFRs:

Section 3	Summary of Pro Forma Rate Base, Revenues and Expenses supporting the Revenue Increase Requested
Section 4	Functional Classification of Plant in Service
Section 5	Functional Classification of Accumulated Depreciation and Amortization
Section 6	Working Capital Components
Section 7	Capital Structure
Section 8	Comparative Balance Sheets, Income Statements and Payroll Data
Section 9	Pro Forma Income Statement
Section 10	Pro Forma Depreciation and Amortization Expense
Section 11A, 11B	Pro Forma Taxes
Section 12C	Labor Capitalization Ratio
Section 13	Annual Report
Section 14	Additional Information
Section 15	Additional Information
Section 16	Financial Statements
Section 17	Summary of Revenue by General Customer Classification

Q. Please provide an explanation of Section 3 and the accompanying schedules.

A. Section 3, Schedule 3-A, provides a summary of the Pro Forma Rate Base the Pro Forma Revenues less Pro Forma Expenses to derive Operating Income at present rates.

Q. What is KGS's calculated rate of return?

A. KGS's calculated rate of return under current rates is 4.41%.

Q. How is the Rate of Return determined?

A. The Operating Income at present rates is divided by the rate base to calculate the rate of return earned under current rates.

Q. Please explain how the requested revenue increase was determined.

A. The required rate of return is applied to Pro Forma Rate Base to determine the additional Operating Income required. Because the additional Operating Income is after income taxes, this amount must be "grossed-up" to determine the revenue shortfall. The Pro Forma Rate Base on line 5 of the MFR is $1,016,084,260. The Pro Forma Revenues on line 6 of the MFR is $299,614,017 less Pro Forma Total Expenses ($254,775,987 on Line 7 of the MFR results in Pro Forma Operating Income at present rates of $44,838,030, as shown on line 8. As previously indicated, the Pro Forma Operating Income at present rates divided by Pro Forma Rate Base results in a rate of return of 4.41% as shown in the MFR on line 9. Line 11, the Operating Income Requirement of $78,315,710, is compared to the Operating Income at present rates to calculate the required Additional Operating Income of $33,477,680 as shown on Line 12. The Associated Income Tax on Line 13 is $12,088,783. The required overall revenue increase is $45,566,463 as shown on Line 14.

Schedule 3-B summarizes Rate Base, Revenues and Expenses in columnar format categorized as Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Schedule 3-C provides each Pro Forma adjustment used in the rate application.

Q. Please describe Section 4.

A. Section 4, Schedule 4-A, Summary Functional Classification of Plant in Service, summarizes each Plant in Service detail account in functional categories under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. The Plant in Service Amount Per Books on Line 8 is $1,834,159,186; Pro Forma Adjustments reflect an increase of $81,056,080; and the Pro Forma Adjusted Total is $1,915,215,266. Corporate allocated plant is included to identify the portion of ONE Gas Plant in Service allocated to KGS. The Pro Forma adjusted amounts are forwarded to Schedule 3-B and the total Pro Forma adjustment is forwarded to Schedule 3-A.

Schedule 4-B Detail Functional Classification of Plant in Service provides each account by the uniform FERC three-digit account in columnar format categorized as Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Sub-total amounts are forwarded to Schedule 4-A.

Schedule 4-C provides summary Pro Forma Adjustments to Plant in Service by functional classification. This schedule summarizes by adjustment, each detail plant account into functional categories in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total.

Schedule 4-D continues the summary of Pro Forma Adjustments to Plant in Service by account and by the uniform FERC three-digit account format. Amounts are forwarded to Schedule 4-B and are summarized in Schedule 4-C.

Schedule 4-E provides an explanation of Pro Forma Adjustments and is further explained in testimony by witnesses identified in Table LME-1 of my testimony.

Schedule 4-F continues the three-digit account format and is expanded by providing comparisons for the twelve months ended December 31, 2014, 2015, 2016, and 2017.

Q. Please describe section 5.

A. Section 5, Schedule 5-A, Summary Functional Classification of Accumulated Provision of Depreciation and Amortization, summarizes each detail reserve account in functional categories in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Corporate allocated Accumulated Depreciation is included to identify the portion of ONE Gas' Accumulated Depreciation allocated to KGS. The Accumulated Provision of Depreciation and Amortization Amount Per Books on Line 9 is $609,626,860; Pro Forma Adjustment is an increase of $8,637,307; and Pro Forma Adjusted

Total is $618,264,168. The Pro Forma adjusted amounts are forwarded to Schedule 3-B and the total Pro Forma adjustment is forwarded to Schedule 3-A.

Schedule 5-B, Detail Functional Classification of Accumulated Provision of Depreciation and Amortization, provides each reserve account by the uniform FERC three-digit account in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Sub-total amounts are forwarded to Schedule 5-A.

Schedule 5-C shows a Summary of Pro Forma Adjustments to Accumulated Provision of Depreciation and Amortization. This schedule summarizes by adjustment, each detail reserve account into functional categories in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total.

Schedule 5-D, Detail Functional Classification of Adjustments to Accumulated Depreciation and Amortization, shows each Pro Forma adjustment by the uniform FERC three-digit account in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Amounts are forwarded to Schedule 5-B and are summarized in Schedule 5-C.

Schedule 5-E provides an explanation of Pro Forma Adjustments which are explained in the testimony of the witnesses identified in Table LME-1 of my testimony.

Schedule 5-F continues the three-digit account format and is expanded by providing comparisons for the twelve months ended December 31, 2014, 2015, 2016, and 2017.

Q Please describe section 6.

A. Section 6, Schedule 6-A, Summary of Working Capital, includes those items required to support the day-to-day business activities in rendering delivery service. Working capital items include materials and supplies, prepayments and gas storage inventory. This section also includes a reduction to rate base for such customer-provided capital items as accumulated deferred income tax liability (ADIT), customer deposits and customer advances.

Schedules 6-B and 6-C each present thirteen months of data by the uniform FERC account. As these types of costs fluctuate monthly, a thirteen-month average is utilized to normalize the embedded cost continually supplied or advanced by Company.

Schedule 6-D sets forth the total ADIT that represents an offset to rate base, including the allocable portion of ADIT that corresponds to corporate plant allocated to KGS in Section 4.

Q. Please describe section 7.

A. Section 7, Schedule 7-A, Capital Structure, includes the components of long-term debt, and common equity.

Schedule 7-B presents ONE Gas' cost of capital debt by issuance. This information is utilized to derive an overall embedded cost of debt and is forwarded to Schedule 7-A, long-term debt related cost rate.

Schedule 7-C presents historical interest coverage for the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Dr. Bruce Fairchild, who is testifying on behalf of KGS, supports the capital structure components and the related capital costs.

Q. Please describe section 8.

A. Section 8, Schedule 8-A compares the Balance Sheet of KGS for the periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-B presents an Income Statement by FERC functional account and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-C presents the Retained Earnings by FERC account and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-D presents detailed Operating Revenues by FERC account and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-E presents detailed Operating Expenses by FERC account and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-F presents Usage, Revenues and Customer Data and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Schedule 8-G presents KGS Operations Payroll Data by FERC account and compares the twelve-month periods ended December 31, 2014, 2015, 2016 and 2017.

Q. Please describe section 9.

A. Section 9, Schedule 9-A, presents the Pro Forma Operating Income Statement. Revenues and expenses are summarized by the FERC functional categories to arrive at Operating Income under present rates in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Total Revenue on line 3, Amount Per Books, is $526,405,417; Pro Forma Adjustments to revenue are a decrease of $226,791,400 resulting in Pro Forma Revenue of $299,614,017. Total expenses on line 18, Amount Per Books, are $477,080,260; Pro Forma Adjustments to expenses are a decrease of $222,304,273 resulting in Pro Forma Expenses of $254,775,986. Operating income on line 19, Amount Per Books, is $49,325,157; Pro Forma Adjustments to Operating Income is a decrease of $4,487,127 resulting in Pro Forma Operating Income of $44,838,030.

Schedule 9-B is formatted similar to Schedule 9-A and is expanded to depict each Pro Forma adjustment proposed to normalize, annualize, include or exclude certain costs previously deferred pursuant to accounting authority orders and other adjustments. Schedule 9-C provides an explanation of Pro Forma Adjustments which are explained in the testimony of the witnesses identified in Table LME-1 of my testimony.

Q. Please describe section 10.

A. Section 10, Schedule 10-A, presents Pro Forma Depreciation and Amortization Expense by the FERC functional categories in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Corporate allocated depreciation expense is included to identify the portion of ONE Gas' depreciation of Plant in Service allocated to KGS. Total Depreciation and Amortization Expense on line 15, Amount Per Books, is $47,727,090; Pro Forma Adjustments are an increase of $15,579,735 resulting in Pro Forma Adjusted Total of $63,306,825.

Schedule 10-B presents depreciation and amortization with amounts related to clearing accounts.

Schedule 10-C provides depreciation and amortization adjustments by FERC function. The total Pro Forma adjustment amounts are forwarded to Schedule 10-A.

Schedule 10-D depicts current depreciation rates and proposed depreciation rates resulting from a depreciation study performed and submitted as part of this application. Dr. Ronald E. White, who is testifying on behalf of the Company, sponsors the 2017 depreciation study and the technical update to that study.

Schedule 10-E calculates the Pro Forma depreciation expense based on existing depreciation rates.

Schedule 10-F calculates the Pro Forma depreciation expense based on the proposed depreciation rates.

Q. Please describe section 11

A. Section 11, Schedule 11-A presents Taxes other than Income Taxes and Income Taxes in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Total Taxes applicable to operations on line 9, Amount Per Books, are

$53,852,593; Pro Forma Adjustments decrease taxes $15,344,289 resulting in Pro Forma Adjusted Total of $38,508,303.

Schedule 11-B lists taxes other than income taxes such as components of payroll taxes, real estate and personal property taxes in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total.

Schedule 11-C through 11-Hare sponsored and described by Mr. Husen.

Q. Please describe section 12.

A. Schedules 12-A and 12-B address corporate allocation and are sponsored by Ms. Davidson. Schedule 12-C, which I am sponsoring, contains a summary of the labor capitalization ratios used to determine the labor allocated to capital and expense.

Q. Please describe section 13.

A. Section 13 contains the ONE Gas 2017 annual report to stockholders including the FORM 10-K filed with the Securities and Exchange Commission.

Q. Please describe sections 14 and 15.

A. Commission regulations provide that Sections 14 and 15 of the MFRs can be used to present additional evidence not provided elsewhere in the application. No additional evidence has been submitted.

Q. Please describe section 16.

A. Financial statements required by Commission regulations to be included in Section 16 are provided in Section 13.

Q. Please describe section 17.

A. Schedule 17-A presents a Summary of Revenue by General Customer Classification. Column 2 contains the Pro Forma Revenue from Existing Tariffs, column 3 has the Revenue Increase or Decrease resulting from proposed tariffs, and column 4 shows the Pro Forma Revenue from the Proposed Tariffs.

Schedule 17-B shows Customers, Deliveries and Revenues for each existing individual tariff. The test year numbers are shown as "per books" and followed by Pro Forma Adjustments, and then Total Pro Forma Customers, Deliveries and Revenues.

Schedule 17-C contains Customers, Deliveries and Revenues for each proposed tariff. The revenue section shows Proposed Revenues, Pro Forma test year revenues and the increase resulting from the proposed tariffs. The percent of increase was calculated by dividing the additional proposed revenue by the sum of the COGR revenue and the Pro Forma test year revenue. The revenue per unit was calculated by the proposed revenue divided by the Pro Forma deliveries. The COGR revenue was determined by multiplying the test year Pro Forma deliveries by the weighted average cost of gas during the test year of $4.87.

Q. Please describe section 18 and which witness is sponsoring that section.

A. Section 18 includes proposed changes to the Company's Rate Schedules and General Terms and Conditions. The section is sponsored by Mr. Clements.

IV. <u>Rate Base Adjustments</u>

Q. Please identify the rate base adjustments you are sponsoring in Sections 4 and 5.

A. I am sponsoring Adjustments PLT 1, PLT 2, PLT 4, PLT 5, ADA 1, ADA 3 and ADA 4.

Q. Please explain adjustment PLT 1.

A. Plant ("PLT") Adjustment PLT 1 increases Rate Base $23,917,948. The adjustment reflects the balance of Construction Work in Progress ("CWIP") at the end of the test period. The projects included in CWIP which will be in-service by December 31, 2018.

Q. What is the basis for including plant in rate base that will be completed after the test period?

A. This adjustment is consistent with K.S.A. 66-128(b) which states:

> "(b) (1) For the purposes of this act, except as provided by subsection (b)(2), property of any public utility which has not been completed and dedicated to commercial service shall not be deemed to be used and required to be used in the public utility's service to the public.
>
> (2) Any public utility property described in subsection (b)(1) shall be deemed to be completed and dedicated to commercial service if: **(A) Construction of the property will be commenced and completed in one year or less;**" (Emphasis added).

Q. Does the property included in the CWIP adjustment meet the criteria specified in the statute?

A. Yes, it does. K.S.A. 66-128(b)(2) permits projects completed within one year from the end of the test period to be included in rate base. KGS anticipates that the CWIP projects will close prior to the end of the fourth quarter 2018 and can be audited and confirmed to be completed and in use before rates go into effect in this proceeding.

Q. Could you please indicate how the adjustment was determined?

A. I included the costs of CWIP projects on the books of KGS as of December 31, 2017, of $23,917,948. This is a conservative amount of the ultimate cost of projects that will be in-service within twelve months of the end of the test period.

Q. Why should this be considered a conservative amount?

A. The costs of projects included in this account will grow as they are completed and placed in-service. KGS will monitor the costs associated with these projects and update Staff and CURB periodically during the course of its investigation. KGS will provide updated schedules to Staff and CURB to reflect the actual amounts closed to plant along with associated retirements. The impact of any variance between actual and estimated project costs can then be included in Staff and CURB's Accounting Schedules. This process to account for CWIP that qualifies to be included in rates has been adopted and used by utilities and Staff in other rate cases.

Q. Please explain adjustment PLT 2 and ADA 1.

A. Adjustments PLT 2 and Accumulated Depreciation Adjustment ("ADA") ADA 1 reflect the amount of retired assets associated with the inclusion of CWIP in Rate Base identified in PLT 1. The adjustment has no effect on net Plant in Service as the amount of the adjustment, $4,174,188, reduces gross plant and its offset, Accumulated Reserve for Depreciation, Adjustment ADA 1, by the same amount.

Q. If the adjustment has no impact on rate base, why is it necessary?

A. The adjustment is necessary to reflect the proper balance of depreciable plant upon which to determine the suitable level of pro forma depreciation expense. While the adjustment does not impact the value of Rate Base, it does impact the overall revenue requirement through the annualized depreciation adjustment calculation. Some KGS assets will be retired as a result of the installation of new assets associated with PLT 1 and, to ensure a proper matching for depreciation expense calculation, the retirements associated with the new CWIP projects should be recognized.

Q. Please explain adjustment PLT 4 and ADA 3.

A. Adjustment PLT 4 and ADA 3 are necessary to eliminate plant assets and associated Accumulated Depreciation that are currently not used and useful. The plant removed is a compressor station that is not currently needed to compress gas to serve our customers. The associated operation and maintenance costs (O&M) have been eliminated in IS 17. PLT 4 decreases Plant in Service by $4,453,250 and ADA 3 reduces Accumulated Reserve by $3,399,381. The net adjustment decreases rate base by $1,053,869.

Q. Please continue with an explanation of adjustment PLT 5 and ADA 4.

A. Adjustment PLT 5 and ADA 4 are necessary to remove a portion of plant related to our Compressed Natural Gas (CNG) stations operating in Overland Park and Topeka, KS, to account for the fact that the CNG stations are accessible to and used by the public. KGS uses part of the CNG facilities for its fleet and other operational needs. That portion is included in the utility's revenue requirement. The portion of the plant used to serve the public is excluded from Plant in Service and Accumulated Depreciation. Adjustment PLT 5 reduces Plant in Service $544,688, while Adjustment ADA 4 reduces Accumulated Depreciation $83,342. The net of the two adjustments is a decrease to rate base of $461,346.

V. Income Statement Adjustments

Q. Please identify the income statement adjustments you are sponsoring in Section 9.

A. I am sponsoring Income Statement ("IS") Adjustments IS 1 through IS 7, IS 17 through IS 27, IS 34, IS 35, and IS 37.

Q. Please explain adjustment IS 1.

A. Adjustment IS 1 is necessary to eliminate Accrued and Unbilled Revenues and Expenses that are included in the test year. The effect of this adjustment removes the estimated accounting entries and what is remaining is the revenue actually billed by the Company in the test year operating results to determine base rates. The adjustment decreases test year operating revenue by $1,216,841.

Q. Please explain adjustment IS 2.

A. Adjustment IS 2 is necessary to eliminate the Deferred Weather Normalization Revenue. Under KGS's Weather Normalization Adjustment (WNA), the difference in revenue resulting from the variance of actual weather from normal weather is recorded and deferred, as either an over-collected amount, if the weather is colder than normal or an under-collected amount, if the weather is warmer than normal. During the test year, the weather was generally warmer than normal. As a result, the under-collected revenue recorded on the books and records of the Company was eliminated from the test year to determine base rate revenues.

The resulting adjustment decreases test year operating revenue by $19,481,622. This adjustment is related to Adjustment IS 8 which calculates pro forma weather normalized sales revenue.

Q. Please explain adjustment IS 3.

A. The purpose of adjustment IS 3 is to eliminate the Cost of Gas Revenues and Expenses. Gas costs are recovered dollar for dollar through KGS's Cost of Gas Rider (COGR). This adjustment eliminates both the revenues and expenses of $224,158,304 contained in the test year associated with the cost of gas for the determination of base rates. This adjustment nets to a $0 change in test year operating income.

Q. Please explain the purpose of adjustment IS 4.

A. Adjustment IS 4 relates to Ad Valorem Tax Revenues and Expenses. This adjustment increases the Ad Valorem tax expenses collected through base rates to $21,144,627 and will be our benchmark established for future filings under our Ad Valorem Tax Surcharge Rider (ATSR). This new expense level has been determined by eliminating revenues billed under KGS's ATSR, eliminating the Ad Valorem tax expense that is amortized during the test period and increasing the test year Ad Valorem tax expense to the 2017 tax assessment level. The billed revenue adjustment is $1,572,950; the amortization expense adjustment is $1,579,775; and the adjustment to the test period Ad Valorem tax expense is an increase of expense of $190,620. The sum of these adjustments decreases test year operating income, before income taxes, by $197,445.

Q. Please explain the purpose of adjustment IS 5.

A. Adjustment IS 5 relates to the Gas System Reliability Surcharge (GSRS). The purpose of the GSRS is to recover cost related to natural gas utility plant projects that qualify under K.S.A. 66-2201, et seq. This adjustment eliminates the revenue from the test year for the determination of base rates and resets the GSRS monthly surcharge to zero on the date that new rates will become effective. This adjustment has no impact to Company revenue because it merely updates base rates to recover expenses that have previously been collected through the GSRS. This adjustment decreases test year operating revenue by $296,894.

Q. Please explain adjustment IS 6.

A. Adjustment IS 6 is necessary to normalize test year revenues for contract minimum quantities and to annualize discounted rates.

Contract Minimum Quantities: The test period revenues were adjusted for the difference in the Mcf billed to customers compared to their contracted minimum quantities. The contract minimum revenues, as adjusted, were based on test year quantities under contracts that were in effect at the end of the test year. This adjustment decreases revenues by $115,184.

Discounted Rate Annualization: The revenues received from customers paying discounted rates were annualized for known and determinable rate changes through January 2018. This adjustment increases revenue by $242,154.

The sum of these adjustments increases test year revenues by $126,970.

Q. Please discuss adjustment IS 7.

A. Adjustment IS 7 is necessary to eliminate CNG revenues that are received from the public sale of CNG. Since KGS does not include the portion of the CNG station assets used to provide CNG for public sales in its filing, it is appropriate to remove the corresponding revenue received from the CNG sales for the determination of base rates. The adjustment decreases operating revenue by $11,467.

Q., Please discuss adjustment IS 37.

A. Adjustment IS 37 applies the current tariff rates to the test year customers and billed volumes to reflect a full year of revenue at the existing rates. This adjustment is made to account for proration of customers' bills that occurred during the test year and other billing variances due to changes in tariff rates. This adjustment increases operating revenues by $937,081.

Q. Please discuss adjustment IS 17.

A. Adjustment IS 17 removes the operating expenses related to the plant assets currently not used and useful in Adjustment PLT 4 from the test period. The adjustment decreases expenses by $41,480.

Q. Please discuss adjustment IS 18.

A. Adjustment IS 18 annualizes the costs associated with property and terrorism insurance, workers compensation, auto liability, and property insurance of KGS. This adjustment increases the amount of expenses for the new policies issued to KGS. The adjustment increases operating expense by $1,306,512.

Q. Is the increase to operating expense from IS 18 offset by any other adjustment?

A. Yes, it is. IS 18 also reflects a change in how the insurance policy premiums are recorded. During the 2017 test year, the majority of the premium costs were recorded to the ONE Gas corporate books and allocated to KGS. However, during the test year, ONE Gas bought policies from Utility Insurance Company (UIC) and began to record the premiums for those policies to each division as applicable instead of recording the premiums at the corporate level and allocating them to the divisions. IS 30 contains a decrease to operating expense that incorporates the change in how the insurance premiums are recorded. Adjustment IS 30 is sponsored by Ms. Davidson. The net change on a KGS basis for all insurance premiums in operating expense, including the change related to UIC, is an increase to operating expense of $178,193.

Q. Please discuss adjustment IS 19.

A. Adjustment IS 19 normalizes the expenses related to workers compensation. KGS used a three-year average expense to determine the appropriate level of expense to include in base rates. The adjustment decreases operating expense by $127,624. IS 18, described above, incorporates the update related to the expense level associated with the current excess workers compensation insurance policy.

Q. Please discuss adjustment IS 20.

A. Adjustment IS 20 increases test period Operational & Maintenance (O&M) costs by $1,944,926. 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 2017;
- 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, 2018;
- Annualizes payroll costs for union wage increases effective November 1;
- Annualizes payroll costs for non-union wage increases that became effective on or before December 31, 2017;
- 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 Staff.

Q. Please continue with an explanation of adjustment IS 21.

A. Adjustment IS 21 increases operating expenses by $328,366 to reflect the increase in 2018 employee medical reserve accruals compared with 2017 levels.

Q. Please continue with an explanation of adjustment IS 22.

A. Adjustment IS 22 enables the Company to recover 50% of its charitable and civic contributions. K.S.A. 66-1,206(a) provides that public utilities shall be allowed to recover in rates 50% or more of dues, donations and contributions to charitable, civic and social organizations. This adjustment is consistent with past Commission practice of authorizing recovery of 50% of such expenditures through rates. This adjustment increases operating expenses by $70,130. The adjustment also eliminates costs of sponsorships and certain other expenses that incurred during the test year, in the amount of $41,699, for a net increase in operating expenses of $28,431.

Q. Please discuss adjustment IS 23.

A. Adjustment IS 23 removes two non-recurring expenses that occurred during the 2017 test period. This adjustment decreases test year operating expenses by $323,582.

Q. Please discuss IS 24.

A. On November 21, 2017, KGS was granted approval to defer and recover costs incurred after January 1, 2017 associated with its obligation to preform environmental investigation, testing, monitoring, remediating and other work performed on MGP sites in Docket No. 17-KGSG-455-ACT (“455 Docket”). As a result of the order in the 455 Docket, KGS set up a regulatory asset on the Corporate books to offset the environmental liability that had been previously recorded. This entry to create the regulatory asset credited KGS's expenses for $5.9 million. Adjustment IS 24 removes this one-time credit from the test year as it is not representative of expenses going forward. In addition, actual expenses that occurred since January 1, 2017, as established in the 455 Docket, were recorded as a regulatory asset to KGS' books. This adjustment sets up the initial amortization of those expenses incurred through March 2018, over a 15-year period as established in the 455 Docket. The costs incurred since January 1, 2017 related to these MGP sites are further described and supported in company witness Mr. James Haught's testimony. Thirdly, this adjustment moves internal travel costs associated with the MGP assets that occurred during 2017 from the regulatory asset to base rates, consistent with the order. The total of these 3 adjustments is an increase to operating expense of $6,013,536.

Q. Please continue with a discussion of IS 25.

A. IS 25 removes costs associated with the Brehm Storage field from base rates. In Docket 03-KGSG-602-RTS, KGS was not allowed to recover the costs associated with this storage field within its cost of gas rider (COGR). As time has passed, and KGS is no longer affiliated with the Mid-Continent Market Center (MCMC), KGS is now requesting that the costs associated with this storage field be included with other gas purchase and storage costs as part of the cost of gas calculation. This adjustment removes $1,248,371 from operating expenses to be included within the COGR.

Q. Please explain adjustment is 26.

A. Adjustment IS 26 decreases Pension and Other Post-Employment Benefit (OPEB) expenses by $1,328,672 to reflect the known and measurable 2018 expense, net of capitalization for these items. The adjustment was computed by comparing the pro forma 2018 KGS costs with those costs expensed in the test period. The costs expensed in the test period were established in the 491 Docket.

Q. Please explain how the costs were established in the 491 Docket.

A. In Docket 10-KGSG-130-ACT (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 491 Docket.

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

A. Yes. In accordance with the Commission's Order in the 130 Docket, KGS will defer the difference between its actual costs and the benchmarks established in this case for Pension and OPEB costs respectively, as a regulatory asset or liability. KGS will continue to adhere to the funding obligations as set forth in the 130 Docket. For purposes of the deferral mechanisms the new benchmarks incorporated into rates are:

Pension Expense: $9,740,013

OPEB Expense: $ (188,871)

These amounts represent the total pro-forma pension and OPEB costs respectively requested in IS 26.

Q. Please continue with an explanation of adjustment IS 27.

A. Adjustment IS 27 first removes the current amortization for deferred pension and OPEB costs from the test year. This amortization amount was established in the 491 Docket. Then, the adjustment establishes a new three-year amortization amount for the projected accumulated balance as of December 2018 for the Pension and OPEB costs. As discussed above, these costs were deferred pursuant to the KCC's Order in the 130 Docket. The specific balances of the deferred Pension and OPEB balances are shown below:

Pension:	$ 6,626,600
OPEB	$ (9,686,960)
Total	$ (3,060,360)
Divided by 3 Years	$ (1,020,120)

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

A. The annual OPEB costs have continued to decline from those included in the 835 Docket and the 491 Docket, therefore, this reduction in costs is reflected as a regulatory liability on the books of KGS.

Q. Explain why KGS is recommending that the accumulated pension/OPEB expenses be amortized over three years?

A. KGS is required to amortize the cumulative difference over a reasonable period of time not to exceed five years under the KCC Order in the 130 Docket. The three-year amortization period proposed by KGS is within the time frame set forth by the Commission.

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

A. The net effect of IS 27 is a decrease to operating expenses of $108,302. This represents a net decrease in the amount of amortization of the Pension and OPEB balances at the end of 2018.

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

A. Adjustment IS 34 increases pro forma operating expenses $171,889. This adjustment incorporates the estimated costs of this rate case plus the unamortized rate case costs from the 491 Docket, amortized over a three-year period. The adjustment is netted against test year rate case amortization costs, resulting in a net increase in operating expenses. 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 is necessary to normalize the non-gas portion of bad debt expense in the test year. A three-year average was used to decrease the non-gas related bad debt expense. This adjustment also recognizes that the requested revenue increase would increase the bad debt expense incurred by KGS. This adjustment also increases the bad debt expense by a percentage of the revenue increase determined by the historical average of bad debt expense to non-gas revenue. The adjustment increases operating expenses by $591,037.

VI. <u>Cyber Security Tracker</u>

Q. Can you discuss what KGS is proposing as it relates to Cyber Security?

A. KGS is requesting the Commission establish a cyber security tracker to track costs above or below the amount in our test year. Cyber security is an issue of upmost importance to ONE Gas and KGS. It is our desire to continue to protect customer data, company data and our pipeline from the ever-growing threats of cyber attackers. The costs associated with cyber security have been increasing. In 2015, the level of costs for cyber security was $908,241. During our test year, the level of cyber security costs was $2,340,656, on an unallocated basis. We do not know what the level of costs may be in the future, and expect that the level of costs related to cyber security will continue to increase.

Q. Has there been any cyber-attacks on pipeline companies recently?

A. In April of this year, at least seven U.S. pipeline operators experienced their electronic customer communications systems shut down[1]. Five companies, including our previous parent company ONEOK, Inc.[2], cited that it was the target of an apparent cyberattack. As these attacks are further analyzed, it is possible that supplementary actions will need to be made by all pipeline companies to prevent additional attacks. ONE Gas continues to work diligently to ensure that the computer systems remain safe from cyber attacks.

Q. What level of expense are you proposing to include in the tracker?

A. During the 2017 test year, ONE Gas incurred $2,340,656 in cyber security expenses. On an adjusted KGS level, this was $763,430. KGS is proposing that the expense for the Cyber Security Tracker be set at the 2017 KGS allocated adjusted level.

Q. Does this conclude your testimony?

A. Yes, it does.

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[1] Malik, Naureen S., "Cyberattack 'Wake-Up-Call' Puts Pipeline Industry in Hot Seat." *Bloomberg*. Bloomberg L.P., 6 Apr. 2018. Web. 16 Apr. 2018. https://www.bloomberg.com/news/articles/2018-04-06/cyberattack-wake-up-call-puts-pipeline-industry-in-hot-seat.

[2] Malik, Naureen S., "Cyberattack Pings Data Systems of At Least Four Gas Networks." *Bloomberg*. Bloomberg L.P., 3 Apr. 2018. Web. 16 Apr. 2018. https://www.bloomberg.com/news/articles/2018-04-03/day-after-cyber-attack-a-third-gas-pipeline-data-system-shuts

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Lorna M. Eaton, being duly sworn upon her oath, deposes and states that she is a Manger, 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 19th day of June 2018.

NOTARY PUBLIC

My appointment Expires:

06/05/2022

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2022