

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Atmos)
Energy to Amend its Purchase Gas Adjustment)
(PGA) Schedule to Add a Demand Charge) Docket No. 14-ATMG-230-TAR
Savings and Pipeline Bypass Savings)
Component to the PGA)

DIRECT TESTIMONY OF
STACEY HARDEN
ON BEHALF OF
CITIZENS' UTILITY RATEPAYER BOARD

JULY 18, 2014

PUBLIC VERSION

**  ** denotes confidential information

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Stacey Harden. My business address is 1500 SW Arrowhead Road, Topeka,
4 Kansas 66604.

5

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

7 A. I am employed by the Citizen's Utility Ratepayer Board ("CURB") as a Regulatory
8 Analyst.

9

10 **Q. Please describe your educational background.**

11 A. I earned a Bachelor of Business Administration degree from Baker University in 2001. I
12 earned a Master of Business Administration degree from Baker University in 2004.

13

14 **Q. Please summarize your professional experience.**

15 A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February 2008.
16 Prior to joining CURB, I was the manager of a rural water district in Shawnee County,
17 Kansas for five years. I am currently an adjunct faculty member at Friends University,
18 Baker University and Haskell Indian Nations University, where I instruct business and
19 accounting courses for undergraduate and graduate students.

20

21 **Q. Have you previously testified before the Commission?**

22 A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS, 10-
23 KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, 10-SUBW-602-TAR, 10-

1 WSEE-775-TAR, 10-KCPE-795-TAR, 10-KCPE-415-RTS, 11-SUBW-448-RTS, 12-
2 SUBW-359-RTS, 12-MKKEE-410-RTS, 12-MKKEE-491-RTS, 13-HHIW-570-RTS, and
3 14-WSEE-148-TAR.

4
5 **II. SUMMARY OF RECOMMENDATIONS**

6 **Q. What is your recommendation to the Commission regarding Atmos Energy's**
7 **application to amend its Purchase Gas Adjustment ("PGA")?**

8 A. I recommend the Commission deny Atmos's application because:

- 9 • amending the PGA to include utility profit is bad policy;
- 10 • the money generated from the amended PGA would simply provide money to
11 Atmos's shareholders, without using any of the money to pay down the cost of
12 capital projects to ratepayers;
- 13 • Atmos is proposing, apparently at the suggestion of Staff, to build uneconomic
14 projects that other Atmos customers will have to subsidize through higher rates;
15 and
- 16 • there are other pre-approval mechanisms for capital investments that should be
17 considered by the Commission before turning the PGA into a profit center.

18
19 In the alternative, if the Commission determines that Atmos should be provided
20 incentives, I recommend the Commission:

- 21 • require Atmos to seek pre-approval of any capital project that may be eligible to
22 receive an incentive;

- 1 • approve only capital projects that produce a positive economic benefit for
- 2 Atmos's Kansas customers; and
- 3 • require that any amount of savings eligible to be shared between shareholders and
- 4 ratepayers be calculated as net savings, netting the cost of the projects against
- 5 savings.

6

7 **III. ATMOS APPLICATION**

8 **Q. Please provide a brief background of Atmos's application.**

9 A. On November 15, 2013, Atmos Energy ("Atmos" or "Company") filed an application
10 seeking Commission approval to add a Demand Charge Savings and Pipeline Bypass
11 Savings Component to its PGA Schedule. Atmos's original application proposed sharing
12 the savings generated by the amended PGA 50/50 between ratepayers and the Company.

13

14 **Q. Did Atmos later submit an amended application?**

15 A. Yes. On April 24, 2014, Atmos filed an amended application seeking the same Demand
16 Charge Savings and Pipeline Bypass Savings Component it requested in its original
17 application, but instead of sharing the savings equally between ratepayers and
18 shareholders, it requested that 100% of the savings be retained by the Company for
19 certain qualified capital projects.

20

21 **Q. Why did Atmos amend its application on April 24, 2014?**

22 A. Atmos amended its application at the suggestion of the Staff of the Kansas Corporation

1 Commission (“Staff”). According to the direct testimony of Kenneth M. Malter, “(b)ased
2 upon a meeting between Atmos and the Commission Staff on February 21, 2014, Staff
3 made the suggestion that instead of sharing the savings equally between the shareholders
4 and the customers, which is what the utility does with respect to capacity release
5 revenues, the utility would invest 100% of the savings in certain capital projects ... (p)er
6 our discussions with Commission Staff these savings would be included as investments to
7 rate base and recoverable by Atmos through the normal rate case process ... Atmos has
8 decided to move forward with Staff’s suggestion by amending that portion of the
9 Application and PGA Schedule to reflect the Commission Staff’s idea as to how to use
10 any demand charge savings and pipeline bypass savings.”¹

11
12 **Q. Did you or any other representative from CURB attend the February 21, 2014**
13 **meeting where Staff suggested Atmos amend its application?**

14 A. No. Although CURB was granted full intervention in this Docket by the Commission on
15 December 3, 2013, CURB was not notified of the February 21, 2014 meeting, nor was
16 any representative of CURB invited to participate in the meeting.

17
18 **Q. What costs would be passed on to customers through Atmos’s amended PGA?**

19 A. Customers would be charged a benchmark price through the amended PGA. The
20 benchmark price would be established based upon Atmos’s traditional or historical costs
21 of capacity which has been prudently procured at the maximum FERC tariff rate for each
22 pipeline. Based upon information provided in the application, it appears likely that Atmos

¹ Direct Testimony of Kenneth M. Malter, pages 2-3.

1 will use the Southern Star Central Gas Pipeline, Inc. (“Southern Star”) rates will be used
2 as the benchmark price in its amended PGA.

3
4 **Q. Why would the PGA be benchmarked using the Southern Star contract rates?**

5 A. Southern Star makes up the largest portion of Atmos’s gas portfolio in Kansas. Currently,
6 Atmos holds a total of 200,000 Dths per day of firm capacity in Kansas. Approximately
7 160,000 Dths per day – about 80% - of Atmos’s total pipeline capacity in Kansas is
8 provided by Southern Star.

9
10 **Q. What happens if Southern Star increases its tariff rates?**

11 A. Atmos will update the benchmark schedule when pipelines implement rate changes.²
12 Customers would then be required to pay for the increased Southern Star rates, even if
13 Atmos is able to procure gas at a lower cost from a different pipeline or supplier.

14
15 **Q. Please describe the proposed Demand Charge Savings Component portion of the**
16 **amended PGA.**

17 A. According to Atmos, the Demand Charge Savings Component of the amended PGA
18 allows Atmos to explore opportunities to serve Kansas customers using non-traditional
19 sources. According to Atmos, the Demand Charge Savings Component would consist of
20 three separate subcomponents:

² Company’s response to Staff Data Request Nos. 3 and No. 4

1 (1) Segmentation Savings: segmentation savings may be realized by dividing the
2 path of a transportation contract into sections and utilizing the contract multiple
3 times, thus lowering the overall capacity demand charges.

4 (2) Pipeline Discount Savings: pipeline discount savings are generally achieved
5 through contract negotiations with a pipeline and are typically offered when
6 pipelines are not fully subscribed or when LDCs have multiple pipeline options.

7 (3) Delivered Services Savings: delivered service savings can be realized through
8 alternative contract structures typically bid through an RFP, where a supplier
9 delivers supply to the city gate cheaper than the LDC can achieve by holding firm
10 capacity with a pipeline.³

11
12 **Q. Please describe the proposed Pipeline Bypass Savings Component portion of the**
13 **PGA.**

14 A. According to Atmos, the Pipeline Bypass Savings Component of the amended PGA
15 allows Atmos to identify and construct new interconnects with alternative pipelines.
16 These new interconnects may allow Atmos to increase capacity on pipelines that have
17 lower demand charges, while reducing capacity on pipelines that have higher demand
18 charges.

19
20
21
22

³ Direct Testimony of Sheri W. Rowe at page 3.

1 **IV. DISCUSSION OF THE ISSUES**

2 **1. Amending the PGA to include utility profits is bad policy**

3

4 **Q. Why is Atmos's amended PGA a bad policy for the Commission to consider?**

5 A. Atmos's amended PGA is a bad policy for several reasons. Specifically, the amended
6 PGA is a complicated mechanism that would change the entire purpose and intent of the
7 PGA. For 37 years, the Commission has been able to assure ratepayers that there is no
8 utility profit contained in the PGA, that the cost of gas being paid by customers is the
9 same cost of gas incurred by the utility. The amended PGA would create a new policy
10 that allows utility shareholders to profit at the expense of utility ratepayers.

11

12 **Q. Why was the use of a PGA approved by the Commission?**

13 A. The PGA was approved mainly to reduce local distribution companies ("LDC") risk of
14 exposure to increasing gas prices. Prior to the approval of a PGA, gas costs, like all other
15 costs incurred by the utility, were set prospectively. Because natural gas prices are not
16 regulated, and can change daily based upon factors outside the utility's control such as
17 supply and demand, storage volumes, and weather, the utilities argued that including the
18 cost of gas in base rates made it increasingly difficult for them to earn their authorized
19 return. The Commission approved the PGA to eliminate the risk to gas utilities associated
20 with volatile gas prices.

21

22

23

1 **Q. Please describe the existing PGA mechanism used in Kansas.**

2 A. The existing PGA, which was established in Kansas in 1977, is a mechanism that
3 provides for the automatic pass-through of both upstream pipeline capacity costs and
4 natural gas costs.⁴ The existing PGA is an uncomplicated mechanism that permits dollar-
5 for-dollar recovery of the utility's prudently-incurred cost of gas.

6
7 **Q. Does the existing PGA include a mark-up on the cost of gas or any profit for the
8 utility?**

9 A. No it does not. The existing PGA mechanism does not include any profit for the utility.
10 This assures ratepayers that the price they are paying for natural gas is the same as the
11 actual cost of gas purchased by the utility. This simple transparency of the PGA benefits
12 ratepayers because they are assured there are no hidden charges or fees included in the
13 gas portion of their monthly utility bill.

14
15 **Q. Does Atmos's amended PGA conform with the existing PGA used in Kansas?**

16 A. No. Atmos's amended PGA would be a major shift from the long-standing Commission
17 order that approved PGAs as a way to limit utilities' risk by permitting dollar-for-dollar
18 recovery of prudently-incurred gas costs.

19
20 **Q. Does Atmos's amended PGA include profits?**

21 A. Yes. Profit is the financial benefit that is realized when the amount of revenue gained
22 from an activity exceeds the expenses. Atmos's amended PGA would allow shareholders

⁴ Generally, I will refer to upstream capacity and natural gas costs as "cost of gas".

1 to financially benefit from the difference between revenues obtained through hypothetical
2 prices charged to customers through the amended PGA, and the Company's actual cost of
3 gas.

4
5 **Q. Have the proposed amendments altered the fundamental concept of what a PGA is**
6 **supposed to do?**

7 A. Yes. In my opinion, the amendments would transform Atmos's PGA into Performance
8 Based Rate ("PBR") mechanism, that provides incentives to Atmos, rather than function
9 as a simple pass-through mechanism.

10
11 **Q. Is there a PBR mechanism in Kansas that allows the utility an opportunity to earn**
12 **an incentive on the sale of gas?**

13 A. Yes. In 1995 the Commission approved a capacity release mechanism that allows utilities
14 the opportunity to earn an incentive on the sale of released capacity.⁵ Utilities are
15 permitted to retain 50% of all capacity release revenues, while flowing the remaining
16 50% of capacity release revenues through the PGA, as a benefit to ratepayers. In its order,
17 the Commission determined that allowing an LDC to equally share in revenues from the
18 capacity release mechanism will produce an sufficient incentive for the utility to
19 prudently exercise its release prerogatives.

20
21
22

⁵ KCC Docket No. 190,061-U, Order dated May 1, 1995.

1 **Q. Has Atmos been able to earn an incentive through the Commission approved**
2 **capacity release mechanism?**

3 A. Yes. According to its application, with the capacity release program Atmos has reduced
4 upstream transportation costs in the PGA by approximately \$3 million over the past three
5 years. However, Atmos points out that savings generated by the capacity release program
6 have been declining, decreasing from \$1,265,000 in 2012 to \$700,000 in 2013.

7
8 **Q. How is the capacity release mechanism different from what is being proposed by**
9 **Atmos?**

10 A. Yes. First, even with the capacity release mechanism, the PGA costs charged to
11 consumers are the actual costs incurred by Atmos in the procurement of natural gas.
12 Second, capacity release is a very narrow and auditable revenue opportunity. Excess
13 capacity in off-peak months can be offered at market, bid on by buyers and then sold –
14 each of these transactions is transparent and auditable. Through an audit, it can be
15 determined exactly how much capacity was offered, what price was paid for that
16 capacity, and how much revenue from capacity release was generated. Crediting 50% of
17 revenues received from this limited auditable event is relatively uncomplicated.

18
19 **Q. Is there another reason the proposed PGA is a bad policy to consider?**

20 A. Yes. The amended PGA would require the use of estimates and hypothetical assumptions
21 in order to calculate the cost of gas that is passed onto consumers. The use estimates and
22 hypothetical assumptions to generate shareholder profit should require a much higher
23 level of scrutiny.

1 **Q. How would Atmos's amended PGA be audited?**

2 A. Atmos's application did not revise the portion of its tariff relating to the Annual Cost
3 Adjustment ("ACA") process. However, Atmos's amended PGA severs the link between
4 actual gas costs and cost recovery from the sale of gas, and therefore would require a
5 more intensive audit.

6
7 **Q. How is the existing PGA audited during the ACA process?**

8 A. The ACA settlement provision is uncomplicated. The existing PGA is based upon
9 contracts and invoices for actual gas purchases that are verifiable and relatively simple to
10 audit. An audit of the verified actual purchases is compared to the Company's actual
11 recovery over the course of a twelve-month period, determines whether there is any over
12 or under recovery amount. Because the existing PGA and ACA settlements are
13 uncomplicated, the audit of all PGAs and ACA settlements is conducted internally by
14 Staff, meaning utilities do not have to formally initiate a docket and petition the
15 Commission for approval.

16
17 **Q. Why does Atmos's amended PGA require additional scrutiny?**

18 A. Whenever consumers are being charged something other than actual costs,
19 additional scrutiny is required. Atmos's amended PGA is based upon benchmarks and
20 hypothetical assumptions. Atmos has an incredible incentive to make estimates and
21 hypothetical assumptions in its favor because its shareholders retain 100% of the
22 difference between revenues received and actual costs.

23

1 **Q. Should the amended PGA be audited using the same process as the existing PGA?**

2 A. No. Considering the complexity of Atmos's proposal, the annual review should no
3 longer be conducted internally by Staff. If the Commission were to approve any portion
4 of Atmos's proposal, it should also require new processes to audit the activity under the
5 PGA. In my opinion, the Company should be required to formally initiate a docket
6 through which it would petition the Commission for approval, because the PGA that
7 would be charged to ratepayers will involve estimates of savings, classification of costs
8 which may result in varying savings, and benchmark prices that will likely change on a
9 regular basis. Auditing a mechanism that uses estimates, shifting benchmarks and
10 discretionary classification of costs is a much more daunting and complex task.

11

12 **2. The amended PGA benefits shareholders at the expense of ratepayers**

13 **Q. How does Atmos's amended PGA benefit its shareholders at the expense of**
14 **ratepayers?**

15 A. Quite simply, ratepayers would pay more than actual cost, and shareholders would get to
16 keep the difference. The amended PGA would allow the Company to charge its
17 customers a hypothetical cost of gas that is benchmarked to a historical portfolio price,
18 while actively seeking alternate ways to obtain natural gas at a lower price. Atmos's
19 proposed PGA allows the company to retain 100% of the difference between revenues
20 received from customer and its actual cost of gas.

21

22 **Q. Does Atmos's amended PGA offer any benefit its customers?**

23 A. No.

1 **Q. Do you agree with Atmos’s use of the term “savings” to describe what Atmos can**
2 **generate through the amended PGA?**

3 A. No. Atmos’s use of the term “savings” is misleading. Per the application, “savings” are
4 achieved when Atmos receives revenue from its Kansas customers through a PGA based
5 upon maximum contract rates, while using alternate methods to procure gas at a lower
6 rate. It would be more appropriate, in my opinion to refer to these “savings” as either
7 shareholder profit or shareholder incentives.

8
9 **Q. Did Atmos provide an estimate of how much money could be generated through**
10 **its amended PGA?**

11 A. No. Atmos provided an example of how each component of the amended PGA would be
12 calculated, but these examples contained hypothetical volumes and pricing information.⁶
13 At no point in the record or testimony does Atmos attempt to quantify how much
14 customer money will be generated and retained by shareholders through the amended
15 PGA.

16
17 **Q. Why didn’t Atmos estimate the amount of money that would be generated through**
18 **its amended PGA?**

19 A. In my opinion, a reasonable estimate cannot be calculated. Each of the components and
20 subcomponents included in Atmos’s proposal is based upon a hypothetical set of
21 circumstances that may or may not limit Atmos’s ability to generate revenues in excess of
22 actual cost. According to the application:

⁶ Atmos response to Staff Data Request Nos. 3 and 4.

- 1 • not all interstate pipelines are required to facilitate segmentation services, which
2 means Atmos may not be able to achieve “savings” on a certain pipeline under its
3 Segmentation Savings subcomponent;
- 4 • in order to achieve “savings” through the Pipeline Discount Savings
5 subcomponent, Atmos would need to negotiate a lower contract rate with a
6 pipeline that is not fully subscribed. It is unclear whether or not there are pipelines
7 that are not fully subscribed available to Atmos that could provide a lower
8 contract rate;
- 9 • the Delivered Services Savings subcomponent may not be available on all
10 pipelines and even if it is available, there is uncertainty from year to year on
11 availability.

12 In other words, there are simply too many variables and uncertainties to provide a
13 reasonable estimate.

14

15 **Q. What does Atmos propose to do with the money generated from the amended**
16 **PGA?**

17 **A.**According to its application, Atmos suggests it might use the money generated from the
18 amended PGA to “fund” certain capital projects.

1 **Q. When Atmos says “fund” – does that mean the money will be used to actually build**
2 **the project?**

3 A. No. Atmos may use the money as a source of capital, but the money generated from the
4 amended PGA will not be used to pay for or reduce the cost of capital projects. Atmos’s
5 customers will pay the full cost of any project in rates. Atmos’s shareholders will just
6 pocket the money generated from the amended PGA.

7

8 **Q. Is Atmos going to use the money generated from the amended PGA for the**
9 **construction of Commission approved capital projects?**

10 A. No. The money will be held by Atmos in a deferred account. When capital projects are
11 placed into service, an accounting entry will be made to transfer the appropriate amount
12 of the deferred balance to shareholders through an acquisition adjustment account. None
13 of the dollars will be used to pay for or pay down construction costs.

14

15 **Q. Please summarize how Atmos’s amended PGA will benefit shareholders at the**
16 **expense of ratepayers.**

17 A. Ratepayers will pay the Company a hypothetical cost of gas which is likely to be higher
18 than the actual cost of gas. The extra money contributed by ratepayers will not reduce the
19 cost to complete capital projects that will be included in rates. Shareholders will get to
20 keep 100% of the money contributed by ratepayers through the amended PGA. None of
21 the ratepayer generated funds are used to pay down the cost of projects.

22

23

1 **3. Atmos is proposing to build uneconomic capital projects**

2 **Q. In its November 15, 2013, application, did Atmos provide any examples of capital**
3 **Projects that could be completed?**

4 A. No.

5
6 **Q. When did Atmos identify capital projects that may be completed?**

7 A. Potential capital projects were identified in a memorandum that was based upon Atmos's
8 February 21, 2014, meeting with Staff. I have attached the confidential memorandum as
9 Exhibit SMH-1 to my testimony.

10
11 **Q. In its amended application, did Atmos provide any explanation of what it may**
12 **consider a qualified capital project?**

13 A. According to the April 24, 2014 amended application, qualified capital projects would
14 fall within the following categories:

- 15 (1) capital projects to provide natural gas service to under-served areas, such as all-
16 electric subdivisions, areas served by propane, or areas where irrigation farmers
17 do not have access to natural gas distribution;
- 18 (2) capital projects that would reduce gas supply costs, such as capital improvements
19 to the Atmos owned storage facilities, capital improvements to access alternative
20 pipeline or local natural gas supplies; and
- 21 (3) other capital projects approved by the Commission.

1 **Q. Do you have a concern about Atmos's proposal to extend mains to under-served**
2 **areas, such as all electric subdivisions?**

3 A. Yes. I am concerned that Atmos's proposal to extend mains to under-served areas,
4 specifically to all-electric subdivisions, is an uneconomic venture that will require an
5 additional subsidy for Atmos's other Kansas customers.

6
7 **Q. Please explain.**

8 A. Atmos identified three all-electric subdivisions in Johnson County, Kansas, as
9 potential areas where the Company would extend its mains.⁷ According to Atmos, the
10 Company would need to extend its gas lines ****[REDACTED]**** feet, at an estimated cost of
11 ****\$[REDACTED]**** in order to serve ****[REDACTED]**** homes located in these three subdivisions.

12
13 **Q. If Atmos were to extend its main into these three-subdivisions in Johnson**
14 **County, Kansas, is there any guarantee that Atmos would gain new customers?**

15 A. No. Because these subdivisions were developed using only electricity, the homes were
16 designed and built using electric space heating and water heating. In order for a
17 homeowner to benefit from having access to natural gas, that homeowner would have to,
18 at minimum, purchase a new gas furnace and gas hot water heater. It is not clear whether
19 the benefit homeowners would receive from switching fuel sources would justify the
20 costs to replace the home's major appliances.

21

22

⁷ Exhibit SMH-1

1 **Q. Why hasn't Atmos extended mains into these all-electric subdivisions before now?**

2 A. According to Atmos's memorandum, "(i)t is not economical now for either the
3 subdivision home owners' association or Atmos to construct and install the mains and
4 distribution facilities to serve these three all electric subdivisions under Atmos' line
5 extension policy."⁸

6
7 **Q. Is Atmos going to use the money generated from the amended PGA to pay the cost
8 of extended lines to all-electric subdivisions?**

9 A. No. As I previously testified, the money generated through the amended PGA
10 will not be used to pay for or pay down construction costs.

11

12 **Q. Who will pay the cost of extending these lines if, as Atmos states, it is uneconomical
13 to extend the lines?**

14 A. Atmos's other ratepayers in placed like Coffeyville and Ulysses will subsidize the entire
15 cost of extending mains in Johnson County through higher rates.

16

17 **Q. Did Staff suggest Atmos complete uneconomic capital projects, like extending mains
18 to all-electric subdivisions?**

19 A. Apparently. In its amended application, Kenneth Malter testifies that "Atmos has decided
20 to move forward with Staff's suggestion by amending that portion of the Application and
21 PGA Schedule to reflect the Commission Staff's idea as to how to use any demand
22 charge savings and pipeline bypass savings."⁹ (emphasis added)

⁸ Direct Testimony of Kenneth Malter, Exhibit KMM-1, at page 1.

1 **Q. Are you aware of any Commission directive or policy change that would encourage**
2 **Staff to suggest Atmos build otherwise uneconomic projects?**

3 A. No. I cannot locate any Commission order or policy statement that encourages the
4 construction of uneconomic capital projects in order to provide natural gas to under-
5 served areas.

6
7 **Q. Do you know why Staff is advocating these types of policy positions?**

8 A. No.

9
10 **Q. Should the Commission approve the construction of uneconomic projects?**

11 A. No.

12

13 **4. Other mechanisms are available to Atmos for capital projects**

14 **Q. Could Atmos obtain Commission approval for certain qualified capital projects**
15 **without significantly altering the PGA?**

16 A. Yes. The Company can request Commission pre-approval for these projects without
17 fundamentally altering the PGA. In the past the Commission has granted pre-approvals to
18 utilities for certain capital projects. The pre-approval significantly reduces the risk for the
19 utility, because it is assured from the start, that if the project is completed prudently, the
20 Commission will approve the recovery of all capital investments.

21

22

⁹ Direct Testimony of Kenneth M. Malter at page 3.

1 **Q. Can you provide an example of what projects could be considered for pre-approval?**

2 A. Yes. Projects that produce a positive net benefit should be considered for pre-approval.

3

4 **Q. Did Atmos's propose any capital projects that may provide a net positive benefit?**

5 A. Yes. Atmos identified a project to make capital improvements to its Liberty Gas Storage
6 Field. The estimated cost of this project is between \$2 and \$5 million. According to
7 Atmos, completion of this project could significantly reduce the amount of natural gas
8 Atmos is required to purchase on the coldest days, which would provide a direct benefit
9 to ratepayers. Additionally, Atmos also identified a project to interconnect and purchase
10 natural gas from a different supplier. The project would cost approximately \$1 - \$2
11 million to complete. Atmos expects the cost of natural gas purchased from this supplier to
12 be significantly less than natural gas purchased on Southern Star.

13

14 **Q. Would CURB support granting pre-approval of certain capital projects?**

15 A. It's possible. CURB would conduct a full analysis and investigation of any proposed
16 capital projects, and each project's benefits and costs. In the past, CURB has expressed
17 caution of such pre-approval applications, but recognizes that in certain instances, capital
18 projects that will ultimately benefit Kansas customers may not be completed by the utility
19 without the assurance of a pre-approval. CURB is more supportive of a Company's
20 application for pre-approval of a capital project that produces positive net benefits for
21 ratepayers than undoing 37 years of Commission policy and turning the PGA into a
22 shareholder profit center.

23

1 **Q. Does Atmos have an incentive to complete these capital projects?**

2 A. Yes. The incentive is the ability to earn a rate of return for its shareholders on the capital
3 investment. Atmos shareholders “benefit from the return on equity on the capital placed
4 in service and into the rate base of the Company”¹⁰ for completed capital projects.
5 Additionally, Atmos has an incentive to provide gas service at the lowest possible cost
6 and with a high degree of customer satisfaction because Atmos and other natural gas
7 utilities are competing for customers because there are alternative fuel choices available
8 to these customers.

9

10 **Q. If Atmos has a capital project that will potentially save Kansas customers money,**
11 **does Atmos have an obligation to complete these projects?**

12 A. I believe so. It is my opinion that it is the inherent obligation of the utility to complete
13 capital projects that provide positive benefits to Kansas customers. In exchange for
14 completing these economically beneficial projects, the Company’s shareholders are given
15 the opportunity to earn a fair rate of return on the investment. It’s a win-win both
16 shareholders and ratepayers.

17

18 **Q. Does the Commission need to grant additional incentives in order for Atmos to**
19 **complete economical beneficial projects?**

20 A. No. Atmos already has a strong incentive to complete Commission approved capital
21 projects. However, if the Commission determines that Atmos should be granted
22 additional incentives, I recommend the Commission:

¹⁰ Direct Testimony of Kenneth M. Malter at page 4.

- 1 • require Atmos to seek pre-approval of any capital project that may be eligible to
- 2 receive an incentive;
- 3 • only approve capital projects that produce a positive economic benefit for
- 4 Atmos's Kansas customers; and
- 5 • require that the any amount of savings eligible to be shared between shareholders
- 6 and ratepayers be calculated as net savings.

7

8 **IV. OTHER COMMENTS**

9 **Q. Do you have any other comments?**

10 A. Yes. The impacts of Atmos's application cannot be over looked. Essentially, if the

11 Commission approves Atmos's application, the Commission will have overturned a 37

12 year Commission policy by approving a mechanism that requires ratepayers to provide

13 the utility dollar-for-dollar recovery of hypothetical costs. Creating a profit center out of

14 the PGA, and encouraging utilities to build uneconomic projects is a substantive policy

15 move away from historic precedent. The Commission's approval of Atmos's application

16 would set a precedent that is very difficult to undo, and that other utilities will quickly

17 line up to take advantage of. I urge the Commission to deny Atmos's proposal.

18

19 **V. RECOMMENDATIONS**

20 **Q. What are your recommendations to the Commission?**

21 A. I recommend the Commission deny Atmos's application because:

- 22 • amending the PGA to include utility profit is bad policy;

- 1 • the money generated from the amended PGA would simply provide money to
- 2 Atmos's shareholders, without using any of the money to pay down the cost of
- 3 capital projects to ratepayers;
- 4 • Atmos is proposing, apparently at the suggestion of Staff, to build uneconomic
- 5 projects that other Atmos customers will have to subsidize through higher rates;
- 6 and
- 7 • there are other pre-approval mechanisms for capital investments that should be
- 8 considered by the Commission before turning the PGA into a profit center.

9

10 In the alternative, if the Commission determines that Atmos should be provided

11 incentives, I recommend the Commission:

- 12 • require Atmos to seek pre-approval of any capital project that may be eligible to
- 13 receive an incentive;
- 14 • approve only capital projects that produce a positive economic benefit for
- 15 Atmos's Kansas customers; and
- 16 • require that any amount of savings eligible to be shared between shareholders and
- 17 ratepayers be calculated as net savings, netting the cost of the projects against
- 18 savings.

19

20 **Q. Does this conclude your testimony?**

21 **A. Yes.**

VERIFICATION

STATE OF KANSAS)

COUNTY OF SHAWNEE) ss:

I, Stacey Harden, of lawful age and being first duly sworn upon my oath, state that I am a regulatory analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.

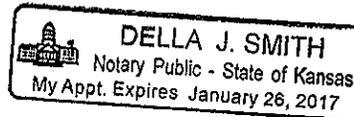


Stacey Harden

SUBSCRIBED AND SWORN to before me this 18th day of July, 2014.



Notary Public



My Commission expires: 01-26-2017.

REDACTED
Exhibit
SMH-1

REDACTED
Referenced Data Requests

KCC - 3

KCC - 4

CERTIFICATE OF SERVICE

14-ATMG-230-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 18th day of July, 2014, to the following:

MICHAEL NEELEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
m.neeley@kcc.ks.gov

SAMUEL FEATHER, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
s.feather@kcc.ks.gov

JAY VAN BLARICUM, ADVISORY COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
j.vanblaricum@kcc.ks.gov

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067
jflaherty@andersonbyrd.com

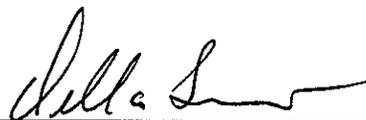
MARY TURNER, DIRECTOR, REGULATORY AFFAIR
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
mary.turner@kcpl.com

ROB HACK, LEAD REGULATORY COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
rob.hack@kcpl.com

GLENDA CAFER, ATTORNEY
CAFER PEMBERTON LLC
3321 SW 6TH ST
TOPEKA, KS 66606
glenda@caferlaw.com

TERRI PEMBERTON, ATTORNEY
CAFER PEMBERTON LLC
3321 SW 6TH ST
TOPEKA, KS 66606
terri@caferlaw.com

ROGER W. STEINER, CORPORATE COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
roger.steiner@kcpl.com



Della Smith
Administrative Specialist