**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

DIRECT TESTIMONY

OF

GRAHAM A. JAYNES

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 Graham A. Jaynes. My business address is 7421 West 129th Street, Overland Park, Kansas, 66213.

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

A. I am the Supervisor in the Rates and Regulatory Department of Kansas Gas Service ("KGS" or the "Company"), which is a division of ONE Gas, Inc. ("ONE Gas").

Q. Please describe your education and professional experience.

A. I have a Bachelor of Business Administration in both Accounting and Finance from Drury University with minors in Entrepreneurship and Global Studies. I was employed with ONEOK Gathering and Processing in Tulsa, Oklahoma from 2015 through May 2017 as a Gas Scheduler and Financial Analyst. During the summer of 2017, I joined KGS in Overland Park, Kansas as a Rates Analyst I. I was promoted to my current position in November of 2021.

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")?

A. Yes. I testified in KGS's last rate case filed in Docket No. 18-KGSG-560-RTS as well as KGS's pending acquisition of American Energies Gas Service, LLC in Docket No. 24-KGSG-284-ACQ.

I. Executive Summary

Q. Please summarize the key issues addressed in your testimony.

A. My testimony addresses core components of the Commission's Minimum Filing Requirements ("MFR"). K.A.R. 82-1-231 requires KGS's Application in this case to contain specific schedules and supporting information. I sponsor most of the schedules required by the Commission's MFR. My testimony also details certain pro forma adjustments normalizing income statement activity in the test year as well as adjustments for known and measurable changes. The financial and accounting data utilized in my testimony are taken directly from KGS's accounting records. I also explain how KGS's Gas System Reliability Surcharge ("GSRS") is resetting to zero as the revenues are being moved into base rates (i.e., rebased).

Q. What is a pro forma adjustment?

A. Pro-forma is Latin for "as a matter of form." KGS is proposing a series of adjustments to reflect established Commission ratemaking principles or arguments presented in the case. In short, pro-forma adjustments are the tools used to appropriately represent KGS's natural gas public utility requirements in this case.

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

A. Yes. Below is Table GAJ-1 which identifies the pro forma adjustments and the sponsoring witness. Rate Base adjustments are identified in one of three different categories: Plant ("PLT"), Accumulated Depreciation and Amortization ("ADA"), or Working Capital ("WC"). Operating Income adjustments are identified as Income Statement ("IS").

Table GAJ - 1

Rate Base Adjustments			
Adjustment No.	**Description**	**Increase/Decrease to Rate Base**	**Witness**
PLT 1	CWIP	$21,503,462	Simpson
PLT 2	Asset Retirements	($3,303,970)	Simpson
PLT 3	Allocation of Corporate Assets	$90,173,610	Edwards
PLT 4	Plant Assets Not Used and Useful	($3,675,848)	Simpson
PLT 5	CNG Facility	($544,688)	Simpson
ADA 1	Acc. Depreciation - Asset Retirements	$3,303,970	Simpson
ADA 2	Acc. Depreciation - Corporate Assets	($39,946,820)	Edwards
ADA 3	Acc. Depreciation - Plant Assets No Longer Used and Useful	$3,625,186	Simpson
ADA 4	Acc. Depreciation - CNG Facility	$257,613	Simpson
WC 1	Corporate Materials and Supplies	$4,263,528	Edwards
WC 2	Fort Riley Plant Adjustment	$8,275,102	Eaton
WC 3	Pre-Payments - Corporate Assets	$5,274,370	Edwards
WC 4	Long Term Pre-Payments – Corporate Assets	$1,862,099	Edwards
WC 5	ADIT - Associated with Pension/OPEB	$19,966,493	Eakens
WC 6	NOL - Associated with Pension/OPEB	($6,282,196)	Eakens
WC 7	ADIT - Associated with COGR	$1,107,491	Eakens
WC 8	ADIT - Associated with Winter Storm Uri Gas Costs	$67,133,255	Eakens
WC 9	NOL – Associated with Winter Storm Uri Gas Costs	($67,133,255)	Eakens
WC 10	ADIT - Corporate	($3,186,706)	Eakens
WC 11	EDIT – Associated with Pension/OPEB/COGR – Tax Cut and Jobs Act	($901,196)	Eakens
WC 12	EDIT – Associated with Pension/OPEB/COGR – State Tax Change	$10,032,079	Eakens
WC 13	EDIT - Corporate - Associated with Remeasurement	($4,417,136)	Eakens

Income Statement Adjustments			
Adjustment No.	**Description**	**Increase/(Decrease) to Operating Income**	**Witness**
IS 1	Eliminate Accrued and Unbilled Revenues	($4,618,551)	Jaynes
IS 2	Eliminate Deferred WNA Revenues	($8,801,792)	Jaynes
IS 3	Eliminate Cost of Gas Revenue and Expense	$0	Jaynes
IS 4	Eliminate Ad-Valorem Surcharge Revenue and Expenses	($15,116,377)	Jaynes
IS 5	Eliminate Gas System Reliability Surcharge Revenue	($26,230,086)	Jaynes
IS 6	Test year Revenue Adjustments (Flex)	$664,195	Jaynes
IS 7	CNG Adjustment	($7,968)	Jaynes
IS 8	Weather Normalization	$6,403,185	Raab
IS 9	Revenue Annualization	($1,433,801)	Raab
IS 10	Miscellaneous Revenue Adjustment	($230,252)	Eaton
IS 11	Ft. Riley Adjustment - Misc. Revenue & Depreciation Adjustment	($321,908)	Eaton
IS 12	Annualized Depreciation on Pro Forma Plant	($2,731,923)	Simpson
IS 13	Annualized Depreciation at Proposed Rates	($15,266,187)	Simpson
IS 14	Remove Certain O&M Expenses Related to unused Plant	$11,075	Simpson
IS 15	Reclass Interest on Customer Deposits	($696,027)	Jaynes
IS 16	Elimination of Royalty Fee	$11,310,184	Jaynes
IS 17	Clearing Account Adjustment	$272,118	Jaynes
IS 18	Insurance Adjustment	($64,979)	Jaynes
IS 19	Workers Compensation	($125,371)	Jaynes
IS 20	Adjustment to Employee Medical Reserve	($155,600)	Jaynes
IS 21	Charitable Contributions and Excluded Costs	($58,230)	Jaynes
IS 22	Misc. Direct Adjustments	$141,187	Jaynes
IS 23	Brehm Storage Costs to COGR	$1,242,314	Jaynes
IS 24	Annualized Corporate Depreciation	($869,944)	Edwards
IS 25	Misc. Corporate Adjustments	$508,788	Downum
IS 26	Distrigas % Adjustment	$700,488	Downum
IS 27	Normalized Compensation (STI)	$766,673	Downum
IS 28	Corporate OPEB, Pension and Medical Benefits	($828,436)	Downum
IS 29	Payroll Adjustment	($4,775,550)	Eaton
IS 30	MGP (Amortization of Reg Asset)	($902,293)	Eaton
IS 31	Cyber Security Adjustment	($606,212)	Eaton
IS 32	Pension/OPEB Cost Adjustments	$5,795,720	Eaton
IS 33	Pension/OPEB Amortization	$3,349,420	Eaton

IS 34	Rate Case Expense Amortization	($357,116)	Eaton
IS 35	Lease Adjustment	$263,263	Eaton
IS 36	TCJA Over-refund Amortization	($82,349)	Eaton
IS 37	Income Tax Adjustment	$10,199,097	Eakens
IS 38	Bad Debt Adjustment	($599,070)	Jaynes
IS 39	Disconnect and Reconnect Fees	$627,690	Eaton
IS 40	EDIT Amortization	($4,381,045)	Eakens

II. 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 September 30, 2023. 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"). In doing so, KGS maintains its books and records as required by the Commission's orders issued in Docket No. 34,846-U.

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

A. I am sponsoring all schedules required by the MFRs, except for the following:

- Section 7
- Schedules 11-C through 11-H in Section 11,
- Schedules 12-A and 12-B in Section 12, and
- The Tariffs in Section 18.

Section 7 is sponsored by Mr. Mark. Smith and Dr. Bruce Fairchild. Schedules 11-C through 11-H in Section 11 are sponsored by Mr. Kenneth Eakens. Schedules 12-A and B, are sponsored by Ms. Keara Downum. The tariffs in Section 18 are sponsored by Ms. Lorna Eaton.

The following table summarizes which MFR Sections and Schedules I support:

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 8	Comparative Balance Sheets, Income Statements and Payroll Data
Section 9	Pro Forma Income Statement
Section 10	Pro Forma Depreciation and Amortization Expense
Section 11-A, 11-B	Pro Forma Taxes
Section 12-C	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 MFR Section 3 and the accompanying schedules.

A. Section 3 has three Schedules, A through C. Schedule 3-A, provides a summary of the Pro Forma Rate Base and the Pro Forma Revenues less the Pro Forma Expenses to derive Operating Income at present rates. This shows the total Kansas and Commission jurisdictional components of KGS's rate base, operating revenues, expenses, net income, and rate of return.

Q. What is KGS's calculated Rate of Return?

A. KGS's calculated Rate of Return under current rates is 2.6137%.

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 $1,395,348,357. The Pro Forma Revenues on line 6 of the MFR is $336,438,899 less Pro Forma Total Expenses $299,968,569 on Line 7 of the MFR results in Pro Forma Operating Income at present rates of $36,470,330, 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 2.6137% as shown in the MFR on line 9. Line 11, the Operating Income Requirement of $110,021,823, is compared to the Operating Income at present rates to calculate the required Additional Operating Income of $73,551,493 as shown on Line 12. The Associated Income Tax on Line 13 is $19,551,663. The required overall revenue increase is $93,103,156 as shown on Line 14.

Q. Could you please summarize Schedule 3-B?

A. Yes. 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. In doing so, this schedule shows how KGS's Commission jurisdictional figures change from their *unadjusted* amounts to their *pro forma* adjusted amounts reflected in Schedule 3-A.

Q. Could you please summarize Schedule 3-C?

A. Yes. Schedule 3-C provides each Pro Forma adjustment used in the rate application.

Q. Please describe Section 4.

A. Section 4 has six Schedules, A through F. 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 $2,410,872,769; Pro Forma Adjustments reflect an increase of $104,152,565; and the Pro Forma Adjusted Total is $2,515,025,334. 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. The sub-total amounts from this schedule 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 from this schedule 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 of the witnesses identified in Table GAJ-1.

Schedule 4-F continues the three-digit account format, and provides comparisons for:

(1) the three calendar years preceding the test year (i.e., the twelve months ended December 31, 2020, 2021, 2022);

(2) The twelve months preceding the test year (i.e., the twelve months ended September 30, 2022); and

(3) The test year (i.e., the twelve months ended September 30, 2023).

Q. Please describe Section 5.

A. Section 5 contains six Schedules, A through F. 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 $791,876,703; Pro Forma Adjustment is an increase of $32,760,050; and Pro Forma Adjusted Total is $824,636,754. The Pro Forma adjusted amounts from this schedule 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 from this schedule 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 from this schedule 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 GAJ-1 of my testimony.

Schedule 5-F continues the three-digit account format and provides comparisons for the twelve months ended December 31, 2020, 2021, 2022, as well as the twelve-month periods ended September 2022 and September 2023.

Q. Please describe Section 6.

A. Section 6 has six Schedules, A through F. Schedule 6-A, Summary of Working Capital, includes those items required to support the day-to-day business activities in providing natural gas 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"), excess deferred income tax liability ("EDIT"), customer deposits, and customer advances.

Schedules 6-B presents thirteen months of data by the uniform FERC account. Thirteen-month averages are utilized to normalize the embedded cost continually supplied or advanced by KGS as these costs fluctuate monthly.

Schedule 6-C presents the net plant in service for distribution assets related to Fort Riley, which KGS operates. This plant is described further in the testimony of Ms. Lorna Eaton.

Schedule 6-D presents thirteen months of data for prepayments by the uniform FERC account.

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

Schedule 6-F presents thirteen months of data for customer deposits and advances by the uniform FERC account.

Q. Please describe Section 7.

A. Section 7 has three Schedules, A through C. Schedule 7-A, Capital Structure, includes the components of ONE Gas' long-term debt and common equity. These components are presented as they existed at the beginning and end of the test year. Schedule 7-A also contains ratios of ONE Gas' debt and equity components compared to ONE Gas' total capital structure, including the percentage cost and the requested overall rate of return. Because ONE Gas' local distribution companies are operating divisions, Schedule 7-A presents ONE Gas' consolidated capital structure.

Schedule 7-B presents ONE Gas' cost of capital debt by issuance and includes the cost of each issue of debt outstanding, and other data such as premiums, discounts, and issuance expense. 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, 2020, 2021, 2022, as well as the twelve-month periods ending September 2022 and September 2023.

Mr. Smith and Dr. Fairchild support portions of Section 7 in their testimony. Mr. Smith provides support for the Company's proposed capital structure and cost of debt. He also provides additional support for the cost of equity recommendation developed by Dr. Fairchild.

Q. Please describe Section 8.

A. Section 8 has seven Schedules, A through G. Each of the Schedules in Section 8 compares an aspect of KGS's financial or operational performance for the periods ended December 31, 2020, 2021, and 2022, as well as September 2022 and September 2023. In particular:

(1) Schedule 8-A presents KGS's Balance Sheet;
(2) Schedule 8-B presents KGS's Income Statement by FERC functional account;
(3) Schedule 8-C presents KGS's Retained Earnings by FERC account;
(4) Schedule 8-D presents KGS's Operating Revenues by FERC account;
(5) Schedule 8-E presents KGS's detailed Operating Expenses by FERC account;
(6) Schedule 8-F presents Usage, Revenues and Customer Data;
(7) Schedule 8-G presents KGS Operations Payroll Data by FERC account

Q. Please describe Section 9.

A. Section 9 has three Schedules, A though C. Schedule 9-A presents the Pro Forma Operating Income Statement. Revenues and expenses are summarized by 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 $856,648,490; Pro Forma Adjustments to revenue are a decrease of $520,209,591 resulting in Pro Forma Revenue of $336,438,899. Total expenses on line 18, Amount Per Books, are $773,172,492; Pro Forma Adjustments to expenses are a decrease of $473,203,923 resulting in Pro Forma Expenses of $299,968,570. Operating income on line 19, Amount Per Books, is $83,475,998; Pro Forma Adjustments to Operating Income is a decrease of $47,005,668 resulting in Pro Forma Operating Income of $36,470,330.

Schedule 9-B is formatted similarly 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 supplies an explanation of Pro Forma Adjustments which are explained in the testimony of the witnesses named in Table GAJ-1.

Q. Please describe Section 10.

A. Section 10 contains six Schedules, A through F. Schedule 10-A presents Pro Forma Depreciation and Amortization Expense by 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 $89,223,457; Pro Forma Adjustments are an increase of $4,379,107 resulting in Pro Forma Adjusted Total of $93,602,564.

Schedule 10-B presents depreciation and amortization expense with amounts related to operating expense and 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 by primary account and proposed depreciation rates resulting from a depreciation study performed and submitted as part of this application. Dr. Ronald White, who is testifying on behalf of the Company, sponsors KGS's 2023 depreciation 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 has eight Schedules, A through H. Schedule 11-A presents Taxes other than Income Taxes as well as 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 $30,958,613; Pro Forma Adjustments increase taxes $9,553,777 resulting in Pro Forma Adjusted Total of $40,512,390.

Schedule 11-B lists taxes other than income taxes, such as components of payroll taxes, real estate taxes, 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-H are sponsored and described by Mr. Eakens.

Q. Please describe Section 12.

A. Section 12 has three Schedules, A through C. Schedules 12-A and 12-B address corporate allocation and are sponsored by Ms. Downum. 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. The percentage of labor expensed for the test year was 64.08%. Capitalized labor accounted for 35.92%.

Q. Please describe Section 13.

A. Section 13 contains the ONE Gas 2022 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. Section 16 requires KGS to submit a copy of its independently audited financial statements for the most recent fiscal year. Financial statements required by this Section are provided in Section 13, which requires ONE Gas provide a copy of its recent annual report and Form 10-K.

Q. Please describe Section 17.

A. Section 17 contains three Schedules, A through C. 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 Cost of Gas Rider (“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 $8.7699.

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 Ms. Eaton.

III. Income Statement Adjustments

Q. Please identify the Incomes Statement Adjustments you are sponsoring.

A. I am sponsoring the following Income Statement ("IS") Adjustments:

IS 1	Eliminate Accrued and Unbilled Revenues
IS 2	Eliminate Deferred WNA Revenues
IS 3	Eliminate Cost of Gas Revenue and Expense
IS 4	Eliminate Ad-Valorem Surcharge Revenue and Expenses
IS 5	Eliminate Gas system Reliability Surcharge Revenue
IS 6	Test year Revenue Adjustments (Flex)
IS 7	CNG Adjustment
IS 15	Reclass Interest on Customer Deposits
IS 16	Elimination of Royalty Fee
IS 17	Clearing Account Adjustment
IS 18	Insurance Adjustment
IS 19	Workers Compensation
IS 20	Adjustment to Employee Medical Reserve
IS 21	Charitable Contributions and Excluded Costs
IS 22	Misc. Direct Adjustments
IS 23	Brehm Storage Costs to COGR
IS 38	Bad Debt Adjustment

Q. Please describe Adjustment IS 1.

A. Adjustment IS 1 eliminates Accrued and Unbilled Revenues as well as Expenses incurred in the test year. This adjustment removes estimated accounting entries so that the remaining revenue reflects what was billed by the Company in the test year. Adjustment IS 1 decreases test year operating income by $4,618,551.

Q. Please describe Adjustment IS 2.

A. Adjustment IS 2 eliminates 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. This is either an over-collection if the weather is colder than normal or an under-collection in the reverse. During the test year, the weather was generally warmer than normal resulting in an under-collection of revenue. This deferred revenue is eliminated from the test year to determine base rate revenues. Adjustment IS 2 decreases test year operating revenue by $8,801,792. Related to Adjustment IS 2, Adjustment IS 8 calculates the Pro Forma weather normalization adjustment sponsored by Mr. Paul Raab.

Q. Please describe Adjustment IS 3.

A. Adjustment IS 3 eliminates Cost of Gas Revenues and Expenses. KGS passes through gas costs as incurred dollar for dollar using its COGR. Both revenue and expenses for the test year are decreased by $474,145,016. Therefore, the Adjustment IS 3 results in a net $0 impact to operating income.

Q. Please describe Adjustment IS 4.

A. Adjustment IS 4 eliminates billed revenue for the Ad Valorem Tax Surcharge Rider ("ATSR"), eliminates test year amortization of the Ad Valorem deferral, and increases Ad Valorem tax expense in the test year to the current Ad Valorem tax assessments which were incorporated into the most recent ATSR filing in Docket No. 24-KGSG-

416-TAR. This increases the Ad Valorem tax expense collected through base rates to $36,353,632, establishing the new benchmark for future ATSR filings. The billed revenue adjustment is a decrease to revenue of $12,999,793; the amortization expense adjustment is a reduction of $13,092,420; and the adjustment to test year Ad Valorem tax expense is an increase of $15,209,005. The sum of the components to Adjustment IS 4 decreases operating income by $15,116,377.

If the Commission approves KGS's proposed Annual Performance-based Rate Adjustment ("APRA"), described in the testimony of Ms. Janet Buchanan, there would no longer be a need for the annual ATSR filing. Changes in Ad Valorem tax expense would be reflected annually in APRA, following the December 2024 ATSR filing.

Q. Please describe Adjustment IS 5.

A. Adjustment IS 5 removes test year revenue for the Gas System Reliability Surcharge ("GSRS"), decreasing test year operating income by $26,230,086.

Q. What is the purpose of GSRS?

A. The purpose of GSRS is to recover cost related to natural gas utility plant projects that qualify under K.S.A. 66-2201, *et seq*.

Q. Why is GSRS revenue removed from the test year?

A. GSRS revenue is removed from the test year because GSRS revenue is associated with plant which is not yet in base rates. As part of this rate case, the GSRS-related plant will be incorporated into KGS's base rates (i.e., "rebased") and the GSRS monthly surcharge will be reset to zero when new rates become effective. By removing the GSRS test year revenue from the rate case and rebasing GSRS-related plant, KGS's overall revenue requirement request integrates what KGS is already recovering through the GSRS. 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. Ms. Buchanan testifies on KGS's gross and net requested rate increase after rebasing the GSRS. Adjustment IS 5 accomplishes this rebasing.

Q. Please describe Adjustment IS 6.

A. Adjustment IS 6 performs two functions. First, it normalizes test year revenues for contract minimum quantities. Second, it annualizes discounted rates. Adjustment IS 6 captures known and determinable rate changes for customers paying discount rates, which results in an increase to test year revenue of $664,195.

Q. Please describe Adjustment IS 7.

A. Adjustment IS 7 removes revenues received from the public sales of CNG within the test year.

Q. Does KGS seek recovery on the plant associated with public CNG sales?

A. No. As described in the testimony of Mr. Reid Simpson, KGS does not seek recovery on the portion of CNG station assets used for public sales. Therefore, it is appropriate to remove the associated revenue. The adjustment decreases operating revenue by $7,968.

Q. Please describe Adjustment IS 15.

A. Adjustment IS 15 increases Miscellaneous General Expenses by $696,027 to incorporate the interest expense on customer deposits into the KGS revenue requirement.

Q. What interest rate is applied to customer deposits?

A. As established in the December 12, 2023, Order issued by the Commission in Docket No. 98-GIMX-348-GIV, the interest rate paid shall be 5.05% for the calendar year 2024.

Q. How is this expense calculated?

A. The balance of accrued customer deposits is a liability reflected as a reduction to rate base in Schedule 6-F. Adjustment IS 15 applies the authorized customer deposit interest rate to the test year end 13-month average balance.

Q. Please describe Adjustment IS 16.

A. Adjustment IS 16 reduces administrative and general costs by eliminating corporate royalty fee charges from the test period. The adjustment decreases operating expense by $11,310,184.

Q. Please describe Adjustment IS 17.

A. Adjustment IS 17 normalizes Operations & Maintenance ("O&M") costs cleared in the test year. The result is a $272,118 decrease to expense resulting from excess clearing of Stores and Auto.

Q. Please explain the underlying accounting for clearing accounts and why an adjustment is appropriate.

A. Clearing accounts are temporary accounts used to capture certain costs in an asset account established to record various activities. A clearing rate is developed for each type of expense recorded in the clearing account and each item is charged to appropriate O&M accounts. Due to the entropy of actual expenses, clearing rates may result in surplus or deficit clearing. As it relates to vehicles, vehicle loading rates are charged based on vehicle usage and are aligned with labor prorates that are calculated based on historical charging by the employee operating the vehicle or work equipment. Stores loading rates are charged based upon the accounts that the storeroom material was charged during the test year. The clearing rates are unlikely to precisely match the actual expenditures incurred by KGS. Reviewing the beginning and ending balances of each clearing account indicated that an adjustment was necessary to accurately reflect the actual expenses that occurred during the test year.

Q. Please describe Adjustment IS 18.

A. Adjustment IS 18 annualizes costs associated with the insurance for property and terrorism, worker compensation, auto liability, and property insurance of KGS. Adjustment IS 18 increases operating expenses by $64,979 for updated policies issued to KGS.

Q. Please describe Adjustment IS 19.

A. Adjustment IS 19 normalizes expenses related to workers compensation. The test year workers compensation expense is normalized to a three-year average. This adjustment increases operating expenses by $125,371.

Q. Please describe Adjustment IS 20.

A. Adjustment IS 20 increases operating expenses by $155,600 to reflect the increase in medical reserve accruals through the end of 2023 as compared to the test year.

Q. Please describe Adjustment IS 21.

A. Adjustment IS 21 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 $79,260. Adjustment IS 21 also eliminates costs of sponsorships and certain other expenses incurred during the test year, in the amount of $21,030, for a net increase in operating expense of $58,230.

Q. Please describe Adjustment IS 22.

A. Adjustment IS 22 removes expenses related to out of period adjustments correcting activity from prior to the test year and expenses for which KGS is not seeking recovery. In total, Adjustment IS 22 reduces operating expenses by $141,187.

Q. Please describe Adjustment IS 23.

A. Adjustment IS 23 removes costs associated with the Brehm Gas Storage field from base rates so that expenses can be included within the COGR. KGS requests that Brehm Gas Storage costs be allowed to flow through the COGR, consistent with other storage costs. As a result of this request, Adjustment IS 23 decreases operating expense by $1,242,314.

Q. What is the Cost of Gas Rider?

A. Established in Docket No. 106,850-U, a purchased gas adjustment referred to as the Cost of Gas Rider, passes through costs related to gas purchases. With the exception of costs associated with the Brehm Gas Storage field which are currently recovered through base rates, KGS's COGR recovers the gas purchase, transportation, and storage costs necessary to meet customer demands.

Q. Why are Brehm Storage costs not currently recovered through the COGR?

A. Treatment of Brehm Storage costs was agreed to as part of the Stipulation and Agreement in Docket No. 03-KGSG-602-RTS. Due to the history of ownership and KGS's affiliate relationship with Mid-Continent Market Center ("MCMC"), these costs are included in base rates rather than passed through the COGR. This is an exception to the treatment of all other gas storage costs.

Q. Is MCMC an affiliate of KGS?

A. At the time of the Stipulation and Agreement in Docket No. 03-KGSG-602-RTS, MCMC was an affiliate of KGS. However, following the ONEOK/ONE Gas spin-off approved in Docket No. 14-KGSG-100-MIS, MCMC is no longer an affiliate. Therefore the concerns related to the affiliate nature of the transaction are no longer present.

Q. Why does KGS find it appropriate to recover Brehm Storage costs through the COGR?

A. The appropriate treatment of gas storage costs is to include them in the COGR, alongside other purchasing and transportation expenses authorized and established in Docket No. 106,850-U. Since KGS and MCMC's affiliate relationship ended a decade ago, there are no affiliated transaction qualities associated with KGS's Brehm Storage costs. Removing Brehm Storage costs from base rates and recovering these costs through the COGR would treat the Brehm Storage costs like all of KGS's other gas storage costs. It is reasonable and appropriate to have uniform and consistent recovery of gas storage costs, and Adjustment IS 23 accomplishes this.

Q. Please describe Adjustment IS 38.

A. Adjustment IS 38 normalizes the non-gas portion of bad debt expense in the test year and adjusts bad debt expense for the requested revenue increase. Test year bad debt expense is normalized to a three-year average decreasing bad debt expense by $256,590. As a result of the overall revenue increase requested by KGS, this adjustment also increases bad debt expense. Determined by applying the historical average of bad debt expense to non-gas revenue, Adjustment IS 38 also increases operating expense by $855,660. The net increase to operating expense of Adjustment IS 38 is $599,070.

Q. Does this conclude your testimony.

A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Graham A. Jaynes, being duly sworn upon his oath, deposes and states that he is the Supervisor, Rates and Regulatory for Kansas Gas Service, a Division of ONE Gas, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

GRAHAM A. JAYNES

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

NOTARY PUBLIC

My appointment Expires:
6/5/26

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