

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of a General Investigation of Atmos     )  
Energy to Show Cause Why this Commission     )  
Should Not Impose Penalties or Sanctions for     )  
Violation of the Natural Gas Pipeline Safety     )  
Statutes, Rules, and Regulations     )     Docket No. 14-ATMG-508-SHO

**JOINT MOTION TO APPROVE SETTLEMENT AGREEMENT**

COME NOW the Staff of the State Corporation Commission of the State of Kansas ("Staff") and Atmos Energy ("Atmos") and pursuant to K.A.R. 82-1-230a, jointly move the State Corporation Commission for the State of Kansas ("Commission") for approval of the Settlement Agreement ("Settlement") attached hereto as Attachment 1, which sets forth an agreement to resolve matters brought forth in this docket and establishes measures on which action will be taken. In support of the Joint Motion, Staff and Atmos (hereinafter collectively referred to as "Joint Movants"), state:

1. On May 2, 2014, the Staff filed a report and recommendation with the Commission recommending the Commission issue order requiring Atmos to show cause why the Commission should not impose civil penalties on Atmos for its failure to replace above-ground pipelines located in urban areas and to have a valve installed upstream at some distance from its regulator stations to allow gas flow to be shut off in an emergency situation. Staff pointed out that Atmos had included certain above ground pipeline replacements and installation of valves at regulator station projects in its recent Gas Safety and Reliability Surcharge ("GSRS") filing and that a Commission order required the replacement of most of the above-ground pipelines by 1997. The regulator station valves were required by regulation to be installed when the stations were constructed years ago.

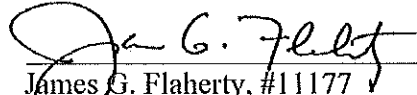
2. On May 15, 2014, Staff and Atmos met to discuss Staff's recommendation in this matter. While Atmos indicated at the meeting it did not agree with the position being taken by Staff

and had a different interpretation of the regulations, Atmos and Staff agreed on a compromise that would adequately resolve both parties' concerns. That compromise is set forth in the Settlement. Under the Settlement, Atmos agrees to successfully implement the proposed plans agreed to by Staff and Atmos with respect to (1) replacing remaining above ground pipelines located in urban areas, (2) installing valves at a safe distance from regulator stations to shut off gas flow in an emergency, (3) installing valves specifically designed to isolate a downtown business district built using a common wall construction technique with priority given to small towns with limited fire fighting abilities, (4) taking over or acquiring Coffeyville Garden Apartments' master meter system and the Kansas City, Kansas (Smith Real Estate Property) master meter system, and (5) replacing bare steel main in downtown Coffeyville, Kansas. In exchange, Staff has agreed to recommend the Commission waive the proposed penalty. Atmos also agreed it will not seek recovery of the costs to implement the proposed plans relating to replacing above ground pipelines and installing valves at regulator stations in any GSRS filing or in any Regulatory Asset ("RA") or similar type mechanism, but shall be limited to recovery of said cost through a general rate case. Atmos further agreed that with respect to its takeover or acquisition of the master meter systems located in its service territory, it will be limited to recovering only its actual costs instead of its embedded cost per customer that it has been allowed in recent municipal acquisition cases.


3. Staff and Atmos have agreed to the Settlement Agreement attached hereto as Attachment 1. The Settlement allows Atmos to remedy alleged deficiencies and to take steps to avoid similar future deficiencies without the imposition of further sanctions or penalties. The Settlement also provides notice that Atmos' failure to complete the proposed plans in the time period agreed to by Atmos and Staff can result in penalties, fines and sanctions. Representatives of both parties have signed and approved the Settlement.

4. As part of the Settlement, the Joint Movants request that the procedural schedule related to the Joint Movants be stayed pending consideration of this motion.

WHEREFORE, for the reasons set forth herein, the Staff and Atmos request this Joint Motion be granted and the Consent Decree be approved.



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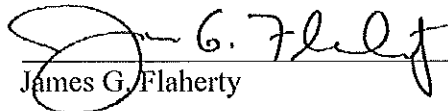


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For Commission Staff

### CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was mailed, postage prepaid, this 26<sup>th</sup> day of June, 2014, addressed to:

Samuel Feather  
Litigation Counsel  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
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James G. Flaherty

# Attachment 1 to the Joint Motion

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of a General Investigation of Atmos	)	
Energy to Show Cause Why this Commission	)	
Should Not Impose Penalties or Sanctions for	)	Docket No. 14 ATMG 508 SHO
Violation of the Natural Gas Pipeline Safety	)	
Statutes, Rules, and Regulations	)	

**SETTLEMENT AGREEMENT**

This Settlement Agreement ("Settlement") is being entered into between the Staff of the State Corporation Commission of the State of Kansas ("Staff") and Atmos Energy ("Atmos") pursuant to K.A.R. 82-1-230a.

**I. BACKGROUND**

1. On May 2, 2014, the Staff filed a report and recommendation with the Commission recommending the Commission issue order requiring Atmos to show cause why the Commission should not impose civil penalties on Atmos for its failure to replace above-ground pipelines located in urban areas and to have one valve installed upstream at some distance from its regulator stations to allow gas flow to be shut off in an emergency situation. Staff pointed out that Atmos had included above ground pipeline replacements and installation of valves at regulator station projects in its recent Gas Safety and Reliability Surcharge ("GSRS") filing and that a Commission Order required the replacement of most of the above-ground pipelines by 1997. The regulator station valves were required by regulation to be installed when the stations were constructed years ago.

2. On May 15, 2014, Staff and Atmos met to discuss Staff's recommendation in this matter. While Atmos indicated at the meeting it did not agree with the position being taken by Staff and had a different interpretation of the regulations, Atmos and Staff did agree on a compromise that would adequately resolve both parties' concerns. Atmos agrees to successfully implement the

proposed plans agreed to by Staff and Atmos with respect to (1) replacing remaining above ground pipelines located in urban areas, (2) installing valves at a safe distance from regulator stations to shut off gas flow in an emergency, (3) installing valves specifically designed to isolate a downtown business district built using a common wall construction technique with priority given to small towns with limited fire fighting abilities, (4) taking over and purchasing the Coffeyville Garden Apartments' master meter system, and the Kansas City, Kansas (Smith Real Estate Property) master meter system, and (5) replacing bare steel main in downtown Coffeyville, Kansas. Staff agrees to recommend the Commission waive the proposed penalty. In addition, Atmos agrees it will not seek recovery of the costs to implement the proposed plans relating to replacing above-ground pipelines and installing valves at regulator stations in any GSRS filing, or in any Regulatory Asset ("RA") mechanism or any similar type mechanism, but shall be limited to recovery of said cost through a general rate case. Atmos further agrees that with respect to its takeover or acquisition of the two master meter systems located in its service territory, it will be limited to recovering only its actual costs instead of its embedded cost per customer that it has been allowed in recent municipal acquisition cases.

3. Staff and Atmos have agreed to this Settlement. This Settlement allows Atmos to remedy alleged deficiencies and to take steps to avoid similar future deficiencies without the imposition of further sanctions or penalties. This Settlement also provides notice that Atmos' failure to complete the proposed plans in the time period agreed to by Atmos and Staff can result in penalties, fines and sanctions.

## II. SETTLEMENT TERMS

4. Staff and Atmos acknowledge that Atmos is a public natural gas utility subject to the jurisdiction of the Commission, pursuant to K.S.A. 66-104, and that the Commission has jurisdiction over this matter pursuant K.S.A. 66-1,150(a) and may compromise any civil penalty as provided in

K.S.A. 66-1,152.

5. Staff and Atmos have reached an agreement resolving the issues in this matter, and Atmos has voluntarily cooperated and consented to the entry of this Settlement without having admitted any fact or violation of law.

6. Atmos has agreed to the Settlement for settlement purposes only and does not stipulate or agree that its above ground pipeline replacement program or its installation of valves at regulation stations program violated any provision of K.A.R. 82-11-4 or 49 CFR §192, or other law, rule or regulation of the Commission.

7. As part of this Settlement, Atmos agrees to implement the plans identified herein and that said plans, once completed, will be in compliance with Staff's interpretation of K.A.R. 82-11-4 and 49 CFR §192.181(b)<sup>1</sup> and the pipeline safety regulations relating to above ground pipelines in urban areas.

8. Staff and Atmos jointly recommend the Commission, by means of approving this Settlement, accept the commitment of Atmos to address the items of alleged noncompliance.

9. Pursuant to K.S.A. 66-1,152, Staff and Atmos agree the timely implementation of the plans identified in Exhibit 1 attached to this Settlement (district regulator station valve installation plan), Exhibit 2 attached to this Settlement (urban area above ground pipeline replacement plan) and Exhibit 3 attached to this Settlement (installing valves designed to isolate downtown business district plan) and taking over or purchasing the two master meter systems and replacing the bare steel main in downtown Coffeyville, Kansas will be conducted in exchange for the Commission not imposing a civil penalty recommended by Staff in this case.

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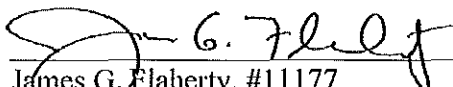
<sup>1</sup>49 CFR §192.181(b) states "Each regulator station controlling the flow or pressure of gas in a distribution system must have a valve installed on the inlet piping at a distance from the regulator stations sufficient to permit the operator of the valve during an emergency that might preclude access to the station."


10. As part of Atmos' agreement to timely implement the district regulator station valve installation plan and the urban area above ground pipeline replacement plan attached to this Settlement, Atmos agrees not to seek recovery of the costs to implement those two plans through its GSRS tariff, or through an RA mechanism or similar mechanism but instead, recover said costs only in a general rate case application. Atmos further agrees that with respect to its takeover or acquisition of the two master meter systems located in its service territory, it will be limited to recovering only its actual costs instead of its embedded cost per customer that it has been allowed in recent municipal acquisition cases.

11. The Parties agree Staff shall report to the Commission any acts or omissions constituting noncompliance which could result in the imposition of administrative penalties, fines or sanctions as may be deemed to be appropriate.

12. Attached to this Settlement as Exhibit 4 is a proposed order that has been approved by the Parties.

IN WITNESS WHEREOF, the parties, through their respective counsel, have executed and approved this Settlement Agreement, effective as of the 26<sup>th</sup> day of June, 2014, by subscribing their signatures below.

  
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For Commission Staff



**INSTALLATION OF VALVES AT DISTRICT REGULATOR STATIONS PLAN**

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- (1) Atmos shall provide the Commission Staff a list of district regulator station locations where Atmos proposes to replace shut-off valve and a time schedule to make said installations. This list shall be provided to the Commission Staff no later than October 1, 2014, and installation shall begin January 1, 2015, and be completed no later than December 31, 2024.
- (2) Atmos shall include district regulator stations constructed prior to the 1971 pipeline safety code requirements.
- (3) Cost recovery of valve installation shall not be included in any Atmos GSRS filing or Regulatory Asset ("RA") mechanism filing or other similar mechanism filing, but shall be limited to being recovered through a general rate case application.

**REPLACEMENT OF ABOVE-GROUND PIPE IN CLASS 2 - 3 AREAS PLAN**

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- (1) Atmos shall provide the Commission Staff a list of remaining above-ground pipe in Class 2 and 3 areas and a time schedule to make said replacements. This list shall be provided to the Commission Staff no later than October 1, 2014, and replacements shall begin January 1, 2015. Above-ground pipe currently located in Class 3 areas shall be replaced no later than July 31, 2015. Above-ground pipe currently located in Class 2 areas shall be replaced no later than December 31, 2020.
- (2) Cost recovery of pipeline replacement shall not be included in any Atmos GSRS filing or Regulatory Asset ("RA") mechanism or similar mechanism, but shall be limited to being recovered through a general rate case application.

INSTALLATION OF VALVES DESIGNED TO  
ISOLATE DOWNTOWN BUSINESS DISTRICTS PLAN

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- (1) Atmos shall provide the Commission Staff a list of downtown business districts built using a common wall construction technique, with priority given to small towns with limited fire fighting abilities, where Atmos agrees to install valves specifically designated to isolate said business districts. This list shall be provided to the Commission Staff no later than October 1, 2014, and installation shall begin January 1, 2015, and be completed no later than December 31, 2020.
- (2) Atmos shall be allowed to recover the cost of this plan in either its GSRS filing, regulatory asset ("RA") filings (if such is approved by the Commission), or in a general rate case application.

EXHIBIT 4 TO THE SETTLEMENT AGREEMENT

BEFORE THE STATE CORPORATION COMMISSION  
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Violation of the Natural Gas Pipeline Safety	)	
Statutes, Rules, and Regulations	)	

**PROPOSED ORDER**

The above captioned matter comes on for consideration and determination by the State Corporation Commission of the State of Kansas ("Commission"). The matter is a general investigation of Atmos Energy ("Atmos") to show cause why this Commission should not impose penalties or sanctions for violation of the natural gas pipeline safety statutes, rules and regulations. This Order addresses only those issues with respect to Atmos.

I. **BACKGROUND**

1. On May 2, 2014, the Staff filed a report and recommendation with the Commission recommending the Commission issue order requiring Atmos to show cause why the Commission should not impose civil penalties on Atmos for its failure to replace above-ground pipelines located in urban areas and to have one valve installed upstream at some distance from its regulator stations to allow gas flow to be shut off in an emergency situation. Staff pointed out that Atmos had included above ground pipeline replacements and installation of valves at regulator station projects in its recent Gas Safety and Reliability Surcharge ("GSRS") filing and that a Commission Order required the replacement of most of the above-ground pipelines by 1997. The regulator station valves were required by regulation to be installed when the stations were constructed years ago.

2. On May 15, 2014, Staff and Atmos met to discuss Staff's recommendation in this

matter. While Atmos indicated at the meeting it did not agree with the position being taken by Staff and had a different interpretation of the regulations, Atmos and Staff did agree on a compromise that would adequately resolve both parties' concerns. Under the terms of the Settlement Agreement ("Settlement") that has been filed by Staff and Atmos in this docket for our consideration, Atmos agrees to successfully implement the proposed plans agreed to by Staff and Atmos with respect to (1) replacing remaining above ground pipelines located in urban areas, (2) installing valves at a safe distance from regulator stations to shut off gas flow in an emergency, (3) installing valves specifically designed to isolate a downtown business district built using a common wall construction technique with priority given to small towns with limited fire fighting abilities, (4) taking over and purchasing the Coffeyville Garden Apartments' master meter system, and the Kansas City, Kansas (Smith Real Estate Property) master meter system, and (5) replacing bare steel main in downtown Coffeyville, Kansas. Staff has agreed to recommend the Commission waive the proposed penalty. Atmos also agrees it will not seek recovery of the costs to implement the proposed plans relating to replacing above-ground pipelines and installing valves at regulator stations in any GSRS filing, or in any Regulatory Asset ("RA") mechanism or any similar type mechanism, but shall be limited to recovery of said cost through a general rate case. Atmos agrees that with respect to its takeover or acquisition of the master meter systems located in its service territory, it will be limited to recovering only its actual costs instead of its embedded cost per customer that it has been allowed in recent municipal acquisition cases.

3. This Order allows Atmos to remedy alleged deficiencies and to take steps to avoid similar future deficiencies without the imposition of further sanctions or penalties. This Order also provides notice that Atmos' failure to complete the proposed plans in the time period agreed to by Atmos and Staff can result in penalties, fines and sanctions.

## II. FINDINGS AND CONCLUSIONS

4. The Commission finds and concludes that Atmos is a public natural gas utility subject to the jurisdiction of the Commission, pursuant to K.S.A. 66-104. The Commission also finds that it has jurisdiction over this matter pursuant K.S.A. 66-1,150(a) and may compromise any civil penalty as provided in K.S.A. 66-1,152.

5. The Commission finds that the Parties have reached an agreement resolving the issues in this matter, and Atmos has voluntarily cooperated and consented to the entry of this order without having admitted any fact or violation of law.

6. Atmos has agreed to the Settlement for settlement purposes only and does not stipulate or agree that its above ground pipeline replacement program or its installation of valves at regulation stations program violated any provision of K.A.R. 82-11-4 or 49 CFR §192, or other law, rule or regulation of the Commission.

7. The Commission, upon review of the materials generated by the investigation and in reviewing the terms of the Settlement before it, finds that a reasonable basis exists to order remedial actions in response to the alleged instances of noncompliance. Atmos has cooperated with the investigation and has agreed to implement the plans identified in the Settlement and that said plans, once completed, will be in compliance with Staff's interpretation of K.A.R. 82-11-4 and 49 CFR §192.181(b)<sup>1</sup> and the pipeline safety regulations relating to above ground pipelines in urban areas.

8. Staff and Atmos jointly recommend, by means of this Settlement, that the Commission accept the commitment of Atmos to address the items of alleged noncompliance.

9. Pursuant to K.S.A. 66-1,152, Staff and Atmos have agreed the timely implementation

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<sup>1</sup>49 CFR §192.181(b) states "Each regulator station controlling the flow or pressure of gas in a distribution system must have a valve installed on the inlet piping at a distance from the regulator stations sufficient to permit the operator of the valve during an emergency that might preclude access to the station."

of the plans identified in Exhibit 1 (district regulator station valve installation plan), Exhibit 2 (urban area above ground pipeline replacement plan) and Exhibit 3 (installing valves designed to isolate downtown business district plan) attached to the Settlement and taking over or purchasing the two master meter systems and replacing the bare steel main in downtown Coffeyville, Kansas will be conducted in exchange for the Commission not imposing a civil penalty recommended by Staff in this case.

10. As part of Atmos' agreement to timely implement the district regulator station valve installation plan and the urban area above ground pipeline replacement plan attached to this Settlement, Atmos has agreed not to seek recovery of the costs to implement those two plans through its GSRS tariff, or through an RA mechanism or similar mechanism but instead, recover said costs only in a general rate case application. Atmos has further agreed that with respect to its takeover or acquisition of the two master meter systems located in its service territory, it will be limited to recovering only its actual costs instead of its embedded cost per customer that it has been allowed in recent municipal acquisition cases.

11. Staff shall report to the Commission any acts or omissions constituting noncompliance which could result in the imposition of administrative penalties, fines or sanctions as may be deemed to be appropriate.

**IT IS THEREFORE BY THE COMMISSION ORDERED THAT:**

This Order shall serve as acknowledgment and agreement by Atmos to implement the plans attached to the Settlement as Exhibits 1, 2 and 3, and said plans shall be considered remedial terms and corrective measures to be taken by the utility in this matter. No penalty shall be issued against Atmos provided that it timely implements the plans attached to the Settlement. Atmos shall also take over or acquire the two master meter systems identified in this Order and replace the bare steel main

located in downtown Coffeyville, Kansas. This Order shall also serve as constructive notice that any failure to comply with the plans and the measures proscribed herein or violations or noncompliance will not be received favorably by this Commission.

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chair; Emler, Com.; Apple, Com.

Dated: \_\_\_\_\_.

\_\_\_\_\_  
Thomas A. Day

\_\_\_\_\_  
Acting Executive Director