

REBUTTAL TESTIMONY
OF
DICK F. ROHLFS
KANSAS GAS SERVICE
DOCKET NO. 17-KGSG-455-ACT

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Dick F. Rohlfs, 4330 SW Cambridge Ave, Topeka, Kansas 66610.

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am a self-employed consultant. My consulting firm is Dick's Consulting Service.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
9 **EXPERIENCE.**

10 A. I graduated from the University of Northern Iowa with a Bachelor of Arts degree with an
11 accounting major. My utility regulatory experience began in 1976 when I was employed
12 by the Iowa State Commerce Commission now known as the Iowa Utilities Board. In
13 1980, I joined the Staff of the Kansas Corporation Commission ("Commission" or "KCC")
14 as a Utility Auditor advancing to Senior Utility Auditor. In 1982, I accepted a position
15 with Kansas Gas and Electric ("KGE") Company as a rate auditor, advancing to Senior
16 Regulatory Accountant. In 1992, with the merger of The Kansas Power and Light
17 Company with KGE, I accepted a position as a Regulatory Coordinator advancing to
18 Director of Retail Rates. I retired from Westar in 2014. Shortly after my retirement I
19 started my consulting service.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to address and rebut the positions taken by Commission
3 Staff (“Staff”) and the Citizens Utility Ratepayers Board (“CURB”) in their direct
4 testimony filed in this Docket on September 8, 2017, which are in opposition to portions
5 of KGS’s application in this matter. Specifically, I rebut the following:

6 (1) Staff’s contention that KGS’s request for an Accounting Authority Order
7 (“AAO”) to recover the \$4.5 million in costs accrued by KGS in the 3rd and 4th quarter of
8 2016 relating to costs that will need to be spent in upcoming years at the Abilene
9 manufactured gas plant (“MGP”) site violates the regulatory principle that prohibits
10 retroactive ratemaking.

11 (2) Staff’s contention that KGS’s request for the AAO as it relates to the \$4.5
12 million in MGP costs is unnecessary because of ONE Gas Inc.’s (“ONE Gas”) stock price
13 in 2016.

14 (3) Staff’s argument that \$1.4 million of the remaining \$12.6 million associated
15 with the environmental liability reserve from ONEOK Inc.’s (“ONEOK”) acquisition of
16 Western Resources, Inc.’s (“Western Resources”) gas properties in 1997, should not be
17 included in the AAO and should not be included in rates because it was part of the goodwill
18 or acquisition premium (“AP”) that was recorded as a result of that transaction.

19 (4) Staff’s contention that KGS is not entitled to insurance proceeds to cover
20 the \$9.49 million in MGP costs that have not been included in rates and which its
21 shareholders have paid for since 1998 because such would result in intergenerational
22 inequities.

1 (5) CURB's argument that KGS should not be allowed to recover MGP costs
2 because such costs do not meet the used and useful standard.
3

4 **II. REBUTTAL TO STAFF'S CONTENTION THAT THE COMPANY'S REQUEST**
5 **SHOULD BE DENIED BECAUSE IT MAY BE RETROACTIVE RATEMAKING**
6

7 **Q. STAFF WITNESS BALDRY STATES (TESTIMONY PAGE 8 LINE 8) "THE AAO**
8 **THAT KGS IS REQUESTING MAY BE CONSIDERED IMPERMISSIBLE**
9 **RETROACTIVE RATEMAKING." DO YOU AGREE WITH THAT**
10 **STATEMENT?**

11 **A.** No. I do not agree with Mr. Baldry's statement. KGS's request complies with K.S.A. 66-
12 117(a) as it applies to the change of rates or schedules. Specifically, 66-117 states that no
13 changes in rates, charges, classifications or schedules of charges shall become effective
14 until approved by the Commission. In this case, the Company merely made an accounting
15 entry on its books upon recognizing the obligation to conduct specified work and
16 determining the reasonably foreseeable costs associated with the obligation.
17

18 **Q. WHAT IS RETROACTIVE RATEMAKING AND WHAT ARE THE STANDARD**
19 **REGULATORY PRINCIPLES PROHIBITING RETROACTIVE RATEMAKING?**

20 **A.** From a public utility ratemaking standpoint, retroactive ratemaking prevents a public utility
21 commission from adjusting a utility's current rates to make up for a utility's over or under
22 collection of its authorized revenue requirement in prior periods. Said another way, if a
23 utility charges the rate approved by the public utility commission, and finds that it has

1 incurred a revenue surplus or shortage, the utility is neither obligated to refund the surplus
2 nor permitted to recoup the shortage through a rate change. Finally, retroactive ratemaking
3 is the term given to the due process violation that occurs when a utility's legally approved
4 "filed-rates" are second guessed at a later date.

5 The standard regulatory principles prohibiting retroactive ratemaking include the
6 principle that rates can only be changed on a *prospective* rather than *retrospective* basis
7 and a rate once fixed remains established until changed by the public utility commission.
8 The standard regulatory principles prohibiting retroactive ratemaking also include due
9 process requirements that a party must have notice that a rate will be changed as of a
10 specific prospective date usually referred to in the utility's tariff as the effective date.

11
12 **Q. WHY DO YOU DISAGREE WITH MR. BALDRY THAT THE COMPANY'S**
13 **REQUEST MAY RESULT IN RETROACTIVE RATEMAKING?**

14 A. There are several reasons why I disagree with Mr. Baldry's suggestion that KGS's request
15 may result in retroactive ratemaking.

16 As indicated by Mr. Baldry at page 14 of his testimony, the Commission has
17 approved AAOs in the past for utilities to defer and recover costs in future rate cases
18 relating to extraordinary events, where those costs were incurred by the utility prior to
19 when the utility filed an application for an AAO. In one case cited by Mr. Baldry, the
20 utility waited nearly a year after it had actually incurred the costs before applying for an
21 AAO. In none of those cases did the Staff or Commission suggest that those utilities were
22 not entitled to an AAO because recovery of those cost that had been incurred by the utility
23 prior to it seeking an AAO would result in retroactive ratemaking. Mr. Baldry tried to

1 distinguish those requests from the present request by suggesting the expenses in those
2 other requests resulted from unforeseeable events like ice storms. However, the nature of
3 the expense cannot form the basis for determining whether the future recovery of incurred
4 expenses prior to the filing of the AAO violate the ban against retroactive ratemaking. The
5 prohibition against retroactive ratemaking has nothing to do with the reason why certain
6 costs were expended, or whether the reason was foreseeable or unforeseeable. The fact
7 that the utility has incurred some costs relating to the extraordinary event prior to filing for
8 an AAO is not retroactive ratemaking and not grounds for disallowance of those costs to
9 be covered under the AAO. Instead, whether an AAO should be approved should be based
10 simply upon the factors outlined at pages 7-8 of Mr. Baldry's testimony — which Staff has
11 indicated are met with respect to the MGP costs that are the subject matter of this
12 proceeding.

13 Even assuming for argument sake that the Commission could not approve an AAO
14 that allowed a utility to recover those expenses incurred prior to the filing of the AAO
15 because such violated the ban against retroactive ratemaking, KGS's request would still not
16 be retroactive ratemaking because that request seeks to recover MGP costs actually
17 incurred after the application for the AAO was filed. To be clear, KGS's use of the term
18 "accrue" means – to recognize the cost of a liability or obligation. The term "incur" is
19 referenced when a payment (cash dispensed) is recognized, and the term "recorded" means
20 to record a transaction. KGS is not seeking to recover any MGP costs incurred by the
21 utility prior to the date when the application for the AAO was filed. The MGP costs
22 accrued in the 3rd and 4th quarter of 2016 by KGS were not spent by the utility in 2016.
23 Therefore, KGS is not seeking to adjust current rates to recover costs incurred in a prior

1 period. This Commission normally does not set rates based upon accrued costs. For
2 example, KGS agrees it would not be entitled to recover the \$4.5 million it accrued in the
3 3rd and 4th quarter of 2016 relating to MGP costs via rates before those costs were incurred
4 and paid for by KGS. Moreover, KGS agrees only incurred costs paid for by the utility
5 and subsequently verified by the Commission as being reasonable are allowed to be
6 recovered in rates. This is the essence of what KGS expects will occur under KGS's
7 proposal.

8 KGS's request satisfies the requirement that the KCC approve a rate before it is
9 changed and charged by the utility and KGS will not be charging any rate other than the
10 KCC authorized rates. Under KGS's request, rates will be adjusted only on a prospective
11 rather than a retrospective basis and will not be adjusted until after approved by the KCC.

12 Also, under KGS's request, customers will have notice that a rate will be changed
13 as of a specific prospective date (effective date) so there is no due process violation. From
14 a public utility ratemaking prospective, KGS's request is not retroactive ratemaking.
15

16 **Q. DO YOU AGREE WITH MR. BALDRY'S POSITION THAT KGS HAS ALREADY**
17 **"INCURRED" THE \$4.5 MILLION IN MGP COSTS?**

18 A. No. I disagree with his position that by merely recording the costs, KGS has already
19 "incurred" the costs. To be clear, KGS has not yet expended the \$4.5 million which is a
20 subject of its application. Instead, KGS has recognized that it will likely incur those costs
21 in the foreseeable future and has thus recorded those costs in 2016.
22
23

1 **Q. BEGINNING AT PAGE 11, LINE 21, MR. BALDRY INDICATED THAT IN MOST**
2 **JURISDICTIONS A UTILITY MUST OBTAIN PERMISSION FROM THE**
3 **AGENCY FOR AN AAO BEFORE SPENDING THE MONEY OR BOOKING THE**
4 **COSTS AND REFERS TO A PUBLIC UTILITY PAPER PREPARED BY MR.**
5 **LEONARD SAUL GOODMAN IN SUPPORT OF THAT STATEMENT. HOW DO**
6 **YOU RESPOND TO MR. BALDRY?**

7 A. Obviously, when Mr. Goodman suggested in his paper that most jurisdictions require a
8 utility to obtain permission from the agency for an AAO before spending the money and
9 recording the costs, he did not include this Commission in that statement because as
10 indicated above and summarized by Mr. Baldry in his testimony, this Commission has
11 allowed utilities in Kansas to spend money or record the costs prior to applying for an
12 AAO. Moreover, as mentioned later in my testimony, the Oklahoma Corporation
13 Commission (“OCC”) that regulates Oklahoma Natural Gas (“ONG”), another division of
14 ONE Gas, has allowed ONG to record extraordinary costs prior to applying for an AAO.
15 In addition, a closer look at Mr. Goodman’s paper shows that while he indicated that “most
16 jurisdictions” require utilities to obtain permission from the agency for an AAO before
17 spending the money or recording the costs, his paper only references two state
18 commissions, Michigan and Washington. An even closer look at the public utility
19 commission orders in those two states that are referenced by Mr. Goodman shows that in
20 the Michigan case the utility waited over 4 years after accruing MGP costs before asking
21 for their deferral and recovery through an AAO. In the Washington case, where the
22 Commission was dealing with two different reserves, it actually allowed the utility to defer
23 storm costs even though the utility never sought an AAO from the commission. The

1 Washington commission indicated that because its previous orders in other cases may have
2 led the utility to believe that storm cost could be deferred and recovered, it would allow
3 the utility to defer and recover the storm costs. With respect to the other reserve account
4 dealing with self-insurance, the Washington Commission rejected recovery on the grounds
5 that the utility never sought an AAO.

6 KGS's request in this case is obviously not like the requests that were turned down
7 by the Michigan and Washington commissions. Unlike the utility in the Michigan case,
8 KGS's request for an AAO was made within a few months, not years, prior to it accruing
9 \$4.5 million of the MGP costs sought to be deferred and recovered in future rate cases.
10 KGS's actions are also unlike the utility in Washington who sought deferral and recovery
11 of its self-insurance reserve even though it never requested an AAO. As indicated, KGS
12 requested an AAO shortly after accruing the \$4.5 million in additional MGP costs. In fact,
13 as indicated by Mr. Smith in his testimony, KGS met with the Commission Staff to discuss
14 its accrual of these MGP costs shortly after the end of 2016 and several months before it
15 made its filing to notify the Staff of KGS's intention to file for an AAO.

16 With respect to the storm reserve that was approved by the Washington
17 commission, there are similarities with the KGS request in that the Washington
18 commission allowed the utility to defer and recover the storm costs because it determined
19 that its previous orders may have led the utility to believe that such deferral and later
20 recovery would be allowed because it was allowed for other utilities. In KGS's case, the
21 Staff conceded in its testimony that this Commission in prior orders has approved AAOs
22 for utilities that had filed their applications as much as a year after actually incurring costs.
23 In the KGS case, the application was filed within months of when the accrual was made

1 and unlike those other utilities, KGS had not actually incurred any of the \$4.5 million in
2 costs prior to the filing of the application.

3
4 **Q. HAS ONE GAS BEEN ALLOWED DEFERRAL AND AMORTIZATION OF**
5 **COSTS BY OTHER UTILITY COMMISSIONS EVEN THOUGH THOSE COSTS**
6 **HAD ALREADY BEEN RECORDED ON THE UTILITY'S BOOKS BEFORE THE**
7 **REQUEST WAS MADE FOR THE DEFERRAL?**

8 A. Yes. In a final order ("Final Order") number 648326 dated January 6, 2016, the OCC
9 authorized ONG to defer and amortize \$2.4 million of cash expenditures that had been
10 recorded from the second quarter of 2014 through the first quarter of 2015.

11
12 **Q. WHEN WAS THE APPLICATION FILED THAT RESULTED IN THIS FINAL**
13 **ORDER?**

14 A. That application was filed on July 8, 2015 well after these costs were recorded on ONG's
15 books. This is further evidence that the Company's current request is not retroactive
16 ratemaking. A copy of the OCC order is attached to my testimony as Exhibit DFR-1.

17
18 **III. REBUTTAL TO STAFF'S CONTENTION THAT THE COMPANY'S REQUEST**
19 **SHOULD BE DENIED BECAUSE OF ONE GAS'S STOCK PRICE**

20
21 **Q. MR. BALDRY INDICATED IN HIS TESTIMONY BEGINNING AT PAGE 17**
22 **THAT THERE IS NO NEED TO ALLOW KGS TO DEFER AND RECOVER THE**
23 **\$4.5 MILLION IN MGP COSTS THAT IT ACCRUED IN 2016 BECAUSE OF HOW**

1 **WELL THE COMPANY'S STOCK PERFORMED IN 2016. SHOULD THE**
2 **COMPANY'S REQUEST BE EVALUATED BASED UPON WHETHER THE**
3 **COMPANY'S STOCK PRICE WENT UP OR DOWN IN 2016?**

4 A. No, it should not. The Commission does not set utility rates based upon how well or poorly
5 the utility's stock price is performing at any given time. Instead, it correctly sets rates
6 based upon the utility's prudently incurred costs. I previously discussed the concept of
7 retroactive ratemaking in showing why KGS's request in this case was not retroactive
8 ratemaking. If the Commission in this, or any other case, decided to set or adjust rates
9 based on how a utility's stock price was performing during a previous period, instead of
10 setting rates based upon actual and reasonable historical and pro-forma costs incurred by
11 the utility, then such practice would clearly violate the prohibition against retroactive
12 ratemaking. This is because the Commission would be adjusting current rates to make up
13 a utility's over or under collection in prior periods.

14
15 **Q. TO SUPPORT HIS RECOMMENDATION IN THIS CASE THAT KGS'S**
16 **REQUEST SHOULD BE DENIED, STAFF WITNESS MR. BALDRY CLAIMED**
17 **SEVERAL TIMES IN HIS TESTIMONY THAT THE FINANCIAL MARKETS**
18 **HAVE ALREADY INCORPORATED THE ECONOMIC IMPACT OF THE**
19 **INCREASED ENVIRONMENTAL EXPENSE IN THE COMPANY'S 2016 STOCK**
20 **PRICE AND ONE GAS' SHARES STILL OUTPERFORMED THE SNL GAS**
21 **UTILITIES INDEX BY A SUBSTANTIAL MARGIN. IS THIS AN ACCURATE**
22 **STATEMENT?**

1 A. No, it is not. The \$4.0 million became public information on February 22, 2017, in
2 connection with ONE Gas' earnings release for the fourth quarter of 2016 and the form 10-
3 K for the year ended December 31, 2016. Therefore, this accrual would not have had any
4 influence over the Company's 2016 stock price.

5
6 **IV. REBUTTAL TO STAFF'S CONTENTION THAT THE COMPANY'S REQUEST**
7 **SHOULD BE DENIED BECAUSE \$1.4 MILLION OF THAT REQUEST WAS**
8 **FOUND TO BE GOODWILL OR ACQUISITION PREMIUM ("AP") THAT WAS**
9 **NOT ALLOWED TO BE RECOVERED FROM CUSTOMERS UNDER THE**
10 **ORDER ISSUED IN THE 1997 ONEOK/WESTERN RESOURCES ACQUISITION**
11 **CASE**

12
13 **Q. STAFF HAS STATED THAT \$1.4 MILLION OF THE COMPANY'S REQUEST**
14 **SHOULD BE DENIED BECAUSE IT WAS FOUND TO BE GOOD WILL OR AP**
15 **THAT WAS NOT ALLOWED TO BE RECOVERED FROM CUSTOMERS**
16 **UNDER THE ORDER ISSUED IN THE 1997 ONEOK/WESTERN RESOURCES**
17 **ACQUISITION CASE. DO YOU AGREE?**

18 A. No I do not agree with Staff's statement. There is nothing in the acquisition order that
19 identified MGP costs as goodwill or AP or indicated MGP costs could not be recovered
20 from customers. Staff's current suggestions that the MGP costs constitute an AP is
21 disingenuous and unreasonable especially since the acquisition order is silent in this regard.

22 The 1997 order approving ONEOK's acquisition of Western Resources' gas
23 properties, found that Commission Staff had recommended to the Commission that

1 ONEOK comply with the Kansas Department of Health (“KDHE”) consent agreement
2 relating to the cleanup and remediation of former MGP sites as a condition of approval of
3 acquisition. That recommendation, which was ultimately included in the settlement
4 entered by the parties in that case, was approved by the Commission. There was no
5 provision included in the Commission order that indicated or even implied that MGP costs
6 incurred by ONEOK to comply with the KDHE consent agreement would not be allowed
7 to be recovered in rates. Instead, the reasonable implication was that such costs could be
8 recovered in rates. It would have been unreasonable, on one hand for the Commission to
9 require the utility to comply with the KDHE consent agreement and incur MGP costs, but
10 on the other hand, not allow recovery of those costs. Moreover, if ONEOK had not
11 acquired Western Resources’ gas properties, then Western Resources’ gas customers
12 would have been required to pay for these MGP costs based upon the Commission’s
13 previous treatment of those costs in the earlier Kansas Public Service (“KPS”) case referred
14 to by both KGS and Staff in this case. Just because ONEOK acquired the gas properties
15 did not relieve the gas customers of that responsibility. Finally, it is important to point out
16 that KGS is not asking customers to pay for any of the previously incurred \$9.4 million of
17 MGP costs that have been paid for by shareholders since 1998. KGS could have certainly
18 asked customers to pay for those costs as allowed under the KPS case. However, as
19 indicated by KGS in its direct testimony, ONEOK decided to rely upon insurance proceeds
20 to cover those costs.

1 **V. REBUTTAL TO STAFF’S CONTENTION THAT THE COMPANY SHOULD NOT**
2 **BE ENTITLED TO INSURANCE PROCEEDS BECAUSE OF**
3 **INTERGENERATIONAL INEQUITIES**

4
5 **Q. STAFF STATED THAT THE COMPANY’S REQUEST TO APPLY THE FIRST**
6 **\$9.4 MILLION IN INSURANCE PROCEEDS TO THE MGP COSTS PAID BY THE**
7 **SHAREHOLDERS SINCE 1998 SHOULD BE DENIED BECAUSE IT WOULD**
8 **RESULT IN INTERGENERATIONAL INEQUITIES. DO YOU AGREE?**

9 **A.** No, I do not agree with Staff’s statement.

10
11 **Q. CAN YOU EXPLAIN THE MEANING OF THE TERM “INTERGENERATIONAL**
12 **INEQUITIES?”**

13 **A.** Yes. From a public utility ratemaking perspective, the term “intergenerational inequities”
14 refers to a situation where a ratemaking decision by the utility commission results in one
15 set of utility customers unfairly paying for benefits received by either a prior or future set
16 of utility customers. To the extent practical and without violating other regulatory
17 principles, the public utility commission has an obligation to prevent this situation from
18 occurring as a result of its ratemaking decisions.

19
20 **Q. CAN YOU EXPLAIN WHY APPROVAL OF THE COMPANY’S REQUEST BY**
21 **THE COMMISSION WOULD NOT RESULT IN INTERGENERATIONAL**
22 **INEQUITIES?**

1 A. Yes. In its request to apply the first \$9.4 million in insurance proceeds to the MGP costs
2 paid by the shareholders between 1998 and 2016, KGS is not asking for a set of customers
3 to pay for benefits received by either a prior or future set of customers. This is because
4 KGS is not asking for any customer, past, present, or future to pay the \$9.4 million in MGP
5 costs that have been paid by the shareholders between 1998 and 2016. In addition, under
6 KGS's request, present and future customers are being asked only to pay for current and
7 future costs incurred by KGS to comply with a mandate placed on KGS by KDHE and the
8 Commission. KGS's present and future customers are not being asked to pay for the prior
9 investments made in MGPs that were operated in the late 19th and early 20th century by
10 KGS's predecessors. Instead, present and future customers, as well as the public generally,
11 will receive the benefits associated with the costs that have been and will be incurred by
12 the utility to clean up and remediate former MGP sites in terms of a cleaner environment.
13 The Commission in its KPS Order also found that there would be no intergenerational
14 inequity by amortizing the cost out over 10 years because future Kansas residents will
15 benefit from the environmental clean-up:

16 "KPS current ratepayers are not the sole benefactors of such environmental
17 remediation; all residents and visitors in the area will benefit." (KPS Order, page 3,
18 paragraph 6).

19 Therefore, there is no intergenerational inequity that would occur by the
20 Commission approving KGS' request in this case. Mr. Smith's rebuttal testimony
21 addresses the other issue raised regarding Staff's concern that there will not be insurance
22 proceeds available to pay for MGP costs that customers are being asked to pay for in the
23 future, which could cause an intergenerational inequity.

1
2 **VI. REBUTTAL TO CURB'S USED AND USEFUL ARGUMENT**

3 **Q. CURB'S WITNESS, MS. CRANE, COMMENTS THAT SOME OF THESE MGP**
4 **SITES ASSOCIATED WITH THE COMPANY'S REQUEST ARE NOT OWNED**
5 **BY KGS AND/OR MAY NOT HAVE BEEN USED BY KGS AND THEREFORE**
6 **KGS SHOULD NOT BE ALLOWED TO RECOVER COSTS TO CLEAN UP AND**
7 **REMEDiate THE MGP SITES FROM CUSTOMERS. HOW DO YOU**
8 **RESPOND TO HER ARGUMENT?**

9 A. KGS is seeking recovery of an operating expense that it is incurring as a result of mandates
10 from KDHE and the Commission. In short, KGS is seeking to recover costs and not its
11 capital investment in the former MGP property and facilities. Accordingly, the proper
12 standard to determine whether these expenses should be included in rates is reasonableness
13 and prudence. Are the MGP costs reasonable and were they prudently incurred? The used
14 and useful or required to be used standard applied by Ms. Crane is misplaced. The used
15 and required to be used standard applied by Ms. Crane is the standard the Commission
16 applies to "valuation" of property for rate base purposes. For the value of a certain property
17 to be included in the utility's rate base calculation, that property must be found to be used
18 by the utility to provide utility service and required to be used in providing that service to
19 customers. The Kansas laws dealing specifically with what property a utility can include
20 in rate base actually includes this used and useful standard in the statute. However, that is
21 not the standard used to determine what costs and expenses are allowed to be recovered in
22 the utility's cost of service. As mentioned earlier, that standard is reasonableness and
23 prudence and in this case no one has suggested that these MGP costs are unreasonable or

1 imprudent. Therefore, the Commission should not accept the recommendation being made
2 by Ms. Crane in this case.

3
4 **VIII. CONCLUSION**

5 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

6 A. Yes, it does at the current time.

VERIFICATION

STATE OF KANSAS

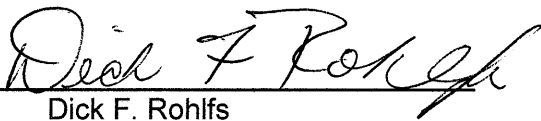
)

) ss.

COUNTY OF SHAWNEE

)

Dick F. Rohlfs, being duly sworn upon his oath, deposes and states that he is Independent Consultant 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.

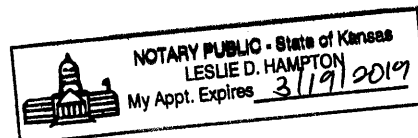

Dick F. Rohlfs

Subscribed and sworn to before me this 22 day of September 2017.


NOTARY PUBLIC

My appointment Expires:

Mar 19, 2019



BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

ME
PUD

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA NATURAL GAS COMPANY, A) CAUSE NO. PUD 201500213
DIVISION OF ONE GAS, INC., FOR A REVIEW)
AND CHANGE OR MODIFICATION IN ITS)
RATES, CHARGES, TARIFFS, AND TERMS) ORDER NO. **648326**
AND CONDITIONS OF SERVICE)

HEARING: November 18, 2015, in Courtroom 301
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma
Before Mary Candler, Administrative Law Judge

APPEARANCES: Dustin R. Fredrick and David E. Keglovits, Attorneys *representing*
Oklahoma Natural Gas Company, a division of ONE Gas, Inc.
Natasha M. Scott, Deputy General Counsel *representing* Public Utility
Division, Oklahoma Corporation Commission
Dara M. Derryberry, Assistant Attorney General *representing* Office of
Attorney General, State of Oklahoma
Thomas P. Schroedter and Jennifer H. Castillo, Attorneys *representing*
Oklahoma Industrial Energy Consumers

FINAL ORDER APPROVING JOINT STIPULATION AND SETTLEMENT
AGREEMENT

BY THE COMMISSION:

The Corporation Commission ("Commission") of the State of Oklahoma, being regularly in session and the undersigned Commissioners present and participating, there comes on for consideration and action the Application of Oklahoma Natural Gas Company, a division of ONE Gas, Inc., ("Oklahoma Natural" or the "Company") for a review and change in its rates, charges, tariffs, and terms and conditions of service. This Cause came on for hearing before the undersigned Administrative Law Judge ("ALJ") on November 18, 2015 on the request of Oklahoma Natural, the Public Utility Division of the Commission ("PUD"), the Attorney General of the State of Oklahoma ("Attorney General"), and the Oklahoma Industrial Energy Consumers ("OIEC") (collectively the "Stipulating Parties") for approval of a Joint Stipulation and Settlement Agreement ("Joint Stipulation") filed herein on November 13, 2015.

I. SUMMARY OF THE PARTIES' ALLEGATIONS

A. Oklahoma Natural

1. Oklahoma Natural filed its Notice of Intent herein on May 15, 2015, stating its intent to file a general rate change application on or before August 31, 2015. On July 8, 2015, Oklahoma Natural filed the Application herein, seeking a review and change in its rates, charges, tariffs, and terms and conditions of service.

2. Oklahoma Natural submitted pre-filed direct testimony on July 8, 2015, from David Scalf, Cory Slaughter, Mary Ann Carter, Annette Ellis, Amelia Nguyen, Caron Lawhorn, Rhonda Mayhan, Mark W. Smith, Allison Edwards, Bruce H. Fairchild, Robert V. Mustich, Ronald E. White, and Paul H. Raab in support of Oklahoma Natural's Application, Schedules, Workpapers, and the calculations reflected, and modifications sought, therein.

3. Oklahoma Natural submitted pre-filed rebuttal testimony on October 29, 2015, from Curtis L. Dinan.

4. Oklahoma Natural submitted pre-filed rebuttal testimony on November 2, 2015, from David Scalf, Rhonda Mayhan, Steven E. Powell, Crystal Turner, Bruce H. Fairchild, and Ronald E. White.

5. Oklahoma Natural submitted pre-filed testimony on November 16, 2015, from David Scalf in support of the Joint Stipulation filed on November 13, 2015, and testified in support of the Joint Stipulation at the hearing on the merits on November 18, 2015.

B. Public Utility Division

1. PUD submitted pre-filed responsive testimony (i.e., revenue requirements) on October 19, 2015, from Jeremy K. Schwartz, Robert C. Thompson, Hunter Hogan, Jason C. Chaplin, Kiran Patel, Geoffrey M. Rush, and David J. Garrett.

2. PUD submitted pre-filed responsive testimony (i.e., cost of service and rate design) on October 23, 2015, from Kathy Champion.

3. PUD submitted pre-filed testimony on November 16, 2015, from Jeremy K. Schwartz in support of the Joint Stipulation filed on November 13, 2015, and testified in support of the Joint Stipulation at the hearing on the merits on November 18, 2015.

C. Attorney General

1. The Attorney General submitted pre-filed responsive testimony (i.e., revenue requirements) on October 19, 2015, from Edwin C. Farrar.

2. The Attorney General submitted pre-filed responsive testimony (i.e., cost of service and rate design) on October 23, 2015, from Edwin C. Farrar.

3. The Attorney General did not provide testimony at the hearing on the merits, but stated the Attorney General believes the Joint Stipulation is fair, just, reasonable, and in the public interest.

D. Oklahoma Industrial Energy Consumers

1. The OIEC submitted pre-filed responsive testimony (i.e., revenue requirements) on October 19, 2015, from Mark E. Garrett and Daniel J. Lawton.

2. The OIEC submitted pre-filed responsive testimony (i.e., cost of service and rate design) on October 23, 2015, from Mark E. Garrett.

3. The OIEC did not provide testimony at the hearing on the merits, but stated the OIEC believes the Joint Stipulation is fair, just, reasonable, and in the public interest.

II. PROCEDURAL HISTORY

A. Pre-Hearing

1. On May 15, 2015, Oklahoma Natural filed a Notice of Intent in this Cause, stating its intent to file a general rate change application on or before August 31, 2015.

2. On May 21, 2015, the Attorney General filed his Entry of Appearance.

3. On June 1, 2015, the OIEC filed its Entry of Appearance.

4. On July 8, 2015, Oklahoma Natural filed the Application herein, seeking a review and change in its rates, charges, tariffs, and terms and conditions of service. Along with the Application, the Company filed the direct testimonies of David Scalf, Cory Slaughter, Mary Ann Carter, Annette Ellis, Amelia Nguyen, Caron Lawhorn, Rhonda Mayhan, Mark W. Smith, Allison Edwards, Bruce H. Fairchild, Robert V. Mustich, Ronald E. White, and Paul H. Raab. In support of its Application, Oklahoma Natural also filed its Schedules and Workpapers.

5. On July 8, 2015, Oklahoma Natural filed its Motion for Protective Order, Motion for Procedural Schedule, and Motion for Order Prescribing Notice of Hearing.

6. On August 18, 2015, the Commission issued Order No. 644242 granting a protective order.

7. On September 22, 2015, the Commission issued Order No. 645379 establishing a procedural schedule and Order No. 645380 establishing notice requirements.

8. On October 19, 2015, PUD filed the responsive testimonies (i.e., revenue requirements) of Jeremy K. Schwartz, Robert C. Thompson, Hunter Hogan, Jason C. Chaplin, Kiran Patel, Geoffrey M. Rush, and David J. Garrett.

9. On October 19, 2015, the Attorney General filed the responsive testimony (i.e., revenue requirements) of Edwin C. Farrar.

10. On October 19, 2015, the OIEC filed the responsive testimonies (i.e., revenue requirements) of Mark E. Garrett and Daniel J. Lawton.

11. On October 23, 2015, PUD filed the responsive testimony (i.e., cost of service and rate design) of Kathy Champion.

12. On October 23, 2015, the Attorney General filed the responsive testimony (i.e., cost of service and rate design) of Edwin C. Farrar.

13. On October 23, 2015, the OIEC filed the responsive testimony (i.e., cost of service and rate design) of Mark E. Garrett.

14. On October 29, 2015, Oklahoma Natural filed the rebuttal testimony of Curtis L. Dinan.

15. On November 2, 2015, Oklahoma Natural filed the rebuttal testimonies of David Scalf, Rhonda Mayhan, Steven E. Powell, Crystal Turner, Bruce H. Fairchild, and Ronald E. White.

B. Joint Stipulation and Hearing

1. On October 30, November 4, November 5, November 12, and November 13, 2015, the Stipulating Parties met to discuss a possible settlement in this Cause.

2. On November 13, 2015, the Stipulating Parties signed a Joint Stipulation, which was filed of record on the same date.

3. On November 16, 2015, Oklahoma Natural filed its Proofs of Publication from the *Tulsa World*, *The Oklahoman*, and newspapers of general circulation in Beckham, McCurtain, Pushmataha, Bryan, Choctaw, Johnston, Jefferson, Love, Marshall, Comanche, Cotton, Tillman, Greer, Jackson, Roger Mills, Harper, Woods, Alfalfa, Grant, Garfield, Major, Woodward, Ellis, and Dewey counties.

4. On November 16, 2015, Oklahoma Natural filed its affidavit in compliance with the direct notice requirements of Order No. 645380.

5. On November 16, 2015, Oklahoma Natural filed the testimony of David Scalf in support of the Joint Stipulation.

6. On November 16, 2015, PUD filed the testimony of Jeremy K. Schwartz in support of the Joint Stipulation.

7. On November 18, 2015, the parties appeared at the scheduled hearing on the merits. Members of the public had the opportunity to make comments on the record, and did so. All testimony and pleadings filed in this Cause were accepted into the record and incorporated by reference.

8. At the hearing, Oklahoma Natural witness David Scalf testified in support of the Joint Stipulation. Mr. Scalf discussed the process that led to the Joint Stipulation. Mr. Scalf provided a summary of the significant terms of the Joint Stipulation and noted the following:

- a. Mr. Scalf discussed the Stipulating Parties' agreement regarding total rate base in the amount of \$1,201,618,244. Mr. Scalf testified that Oklahoma Natural has spent over \$205 million on capital projects since its 2014 Performance Based Rate Change ("PBRC") review. These capital investments were related, in large part, to regulatory compliance and government relocation.
 - b. Mr. Scalf discussed the Stipulating Parties' agreement regarding depreciation, recovery of short term incentive ("STI") compensation, and non-recovery of long term incentive ("LTI") compensation.
 - c. Mr. Scalf discussed the Stipulating Parties' agreement regarding capital structure at 60.5% equity and 39.5% debt with certain equity cap adjustments during the next four (4) PBRC reviews.
 - d. Mr. Scalf discussed the Stipulating Parties' agreement regarding Oklahoma Natural's rates reflecting its actual cost of debt at 3.95% and a return on equity of 9.5%.
 - e. Mr. Scalf discussed the regulatory assets agreed to by the Stipulating Parties.
 - f. Mr. Scalf discussed the changes to its compressed natural gas ("CNG") rebate program agreed to by the Stipulating Parties.
 - g. Mr. Scalf testified that the Joint Stipulation is fair, just, reasonable, and in the public interest. Mr. Scalf also requested that the Commission approve the Joint Stipulation and associated tariff modifications.
9. Mr. Scalf further responded to several questions from Commissioner Murphy regarding the following:
- a. Oklahoma Natural's filed position versus the Joint Stipulation.
 - b. The impact of the Joint Stipulation on Oklahoma Natural's rates within particular customer classes.
 - c. Oklahoma Natural's return on equity and its relation to the PBRC dead-band.
 - d. Oklahoma Natural's low income (i.e., LIHEAP) rate including customer enrollment and qualification. Mr. Scalf testified that the Joint Stipulation does not impact Oklahoma Natural's low income (i.e., LIHEAP) rate.
 - e. Oklahoma Natural's capital investments since its 2014 PBRC review.
 - f. Oklahoma Natural's next PBRC review will be a 2017 PBRC review of calendar year 2016.

10. At the hearing, PUD witness Jeremy K. Schwartz testified in support of the Joint Stipulation. Mr. Schwartz testified that he was involved in the development of the Joint Stipulation and that he was in agreement with Mr. Scalf's representation of the terms of the Joint Stipulation. Mr. Schwartz provided a summary of the terms of the Joint Stipulation. In response to questions from the ALJ, Mr. Schwartz discussed the number of PUD analysts involved in this Cause. In response to questions from Commissioner Murphy, Mr. Schwartz described the supplemental workpaper, future meeting to discuss the PBRC Tariff, and regulatory assets agreed to by the Stipulating Parties. Mr. Schwartz testified that PUD believes that the Joint Stipulation is fair, just, reasonable, and in the public interest. Mr. Schwartz also requested, on behalf of PUD, that the Commission approve the Joint Stipulation and associated tariff modifications.

11. The Attorney General stated his position that he supported the Joint Stipulation as evidenced by his signature. The Attorney General stated that the Joint Stipulation is fair, just, reasonable, and in the public interest. The Attorney General also requested the ALJ to recommend approval of the Joint Stipulation.

12. The OIEC stated its position that it supported the Joint Stipulation as evidenced by its signature. The OIEC stated that the Joint Stipulation is fair, just, reasonable, and in the public interest. The OIEC also requested the ALJ to recommend approval of the Joint Stipulation.

13. The ALJ recommended approval of the Joint Stipulation and directed Oklahoma Natural to prepare and submit a proposed order.

14. The record was closed.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. Jurisdiction and Notice

1. The Commission finds that it has jurisdiction of this matter by virtue of Article IX, Section 18 of the Oklahoma Constitution and 17 O.S. §§151 *et seq.*

2. The Commission further finds that notice was given as required by law and Commission Rules and is in compliance with Commission Order No. 645380.

3. The Commission further finds that the Stipulating Parties have executed and submitted to the Commission a Joint Stipulation and Settlement Agreement, including Exhibits "A", "B", "C", "D", and "E" filed with the Commission on November 13, 2015, a copy of which is attached to this Order as Attachment "1" and incorporated by reference.

4. The Commission further finds and concludes, based upon the evidence and testimony submitted, that the Joint Stipulation and Settlement Agreement is fair, just, reasonable, and in the public interest, and should be approved in all respects.

B. Base Rates Increase

1. The Commission finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's revenue deficiency resulting in a base rate increase in the amount of \$29,995,000 inclusive of federal and state income taxes is hereby approved.

C. Rate Base and Incentive Compensation

1. The Commission finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's total rate base in the amount of \$1,201,618,244 is hereby approved.

2. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall adjust depreciation expense in the amount of (\$5,818,495). As part of this adjustment, Oklahoma Natural's Asset Account 380.0 Services (Plastic) shall reflect a 58-year average life.

3. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall recover short term incentive (STI) compensation at the lesser of the 100% target level or the actual total amount paid out ("Lesser of Target or Actual Level"). Oklahoma Natural shall recover short term incentive compensation at this Lesser of Target or Actual Level within each subsequent PBRC review until otherwise ordered by the Commission.

4. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall not recover long term incentive (LTI) compensation until otherwise ordered by the Commission.

D. Capital Structure, Cost of Debt, and Return on Equity

1. The Commission finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's rates shall reflect a capital structure at 60.5% equity and 39.5% debt. Oklahoma Natural's capital structure shall be adjusted to reduce equity by 1% point (along with a 1% point increase to debt) within each subsequent annual PBRC review beginning with 59% equity and 41% debt in Oklahoma Natural's 2017 PBRC review of calendar year 2016 and ending with 56% equity and 44% debt in Oklahoma Natural's 2020 PBRC review of calendar year 2019. This capital structure equity adjustment shall serve as a cap. Thus, the capital structure set within each subsequent PBRC review will be the lower of actual equity or the cap.

2. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's rates shall reflect its actual cost of debt in the amount 3.95%.

3. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's authorized return on equity of 9.5% (i.e., the Allowed Return on Equity as defined within the PBRC Tariff) is hereby approved.

4. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that the rate design proposed by Oklahoma Natural is hereby approved.

5. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that the new monthly service charge for Oklahoma Natural's customers inclusive of the energy efficiency true-up and utility incentive, but exclusive of gas commodity costs, shall be as follows:

- (a) Residential 101 "A" and 101-V "A" will pay a fixed charge of \$16.10 per month and a volumetric delivery fee of \$4.1143 per dekatherm;
- (b) Residential 101 "B" and 101-V "B" will pay a fixed charge of \$33.24 per month and no volumetric delivery fee; and
- (c) Large commercial will pay a fixed charge of \$91.62 per month and no volumetric delivery fee.

6. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Tariffs 101, 101-V, and 200-LCI shall be modified (i.e., changes in customer charges) as reflected in the modified tariffs, which are shown in both "redline" and "clean" format as Exhibit "A" to the Joint Stipulation (Attachment "1").

7. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Tariffs 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, and 601-S shall be modified as reflected in the modified tariffs, which are shown in both "redline" and "clean" format as Exhibit "B" to the Joint Stipulation (Attachment "1").

E. Performance Based Rate Change Tariff, Tariff 1201

1. The Commission finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's PBRC Tariff, Tariff 1201, shall be modified as reflected in the modified tariff, which is shown in both "redline" and "clean" format as Exhibit "C" to the Joint Stipulation (Attachment "1").

2. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall submit to the Stipulating Parties, as part of its annual PBRC review, a supplemental workpaper calculating, for demonstrative purposes only, the impact of the most recent base rate increase on the amount of earnings-based incentive compensation included in any base rate increase requested under the PBRC Tariff.

3. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that the Stipulating Parties shall meet at least once on or before

July 31, 2016, to specifically discuss and share analyses regarding the earnings calculation (i.e., actual versus pro-forma), rate base amount utilized within the return on equity calculation, and the sharing of any earnings credit (i.e., Oklahoma Natural falls above the top of the AROE dead-band) within annual PBRC reviews.

F. Tornado/Storm Damage Costs, Prepaid Pension Asset, ONE Gas Stand-up Costs, Rate Case Expense, and Changes or Modifications to Other Tariffs

1. The Commission finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall establish a regulatory asset regarding its actual tornado/storm damage costs not covered by insurance in the amount of \$2,217,192. Oklahoma Natural shall defer and add any future tornado/storm damage costs not covered by insurance to this regulatory asset. Oklahoma Natural shall amortize these costs over four (4) years and shall earn a full return on this regulatory asset.

2. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall establish a prepaid pension asset in the amount of \$123,473,215. Oklahoma Natural shall earn a full return on this prepaid pension asset.

3. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall recover its allocated portion of the ONE Gas stand-up costs in the amount of \$2,418,236 amortized over four (4) years.

4. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural shall recover its actual rate case expense amortized over four (4) years.

5. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Tariffs 901-T, 1051, and 2000 shall be modified (i.e., formatting or clarification changes) as reflected in the modified tariffs, which are shown in both "redline" and "clean" format as Exhibit "D" to the Joint Stipulation (Attachment "1").

6. The Commission further finds, pursuant to the evidence submitted and the Stipulating Parties' agreement, that Oklahoma Natural's Compressed Natural Gas Surcharge Incentive Mechanism Tariff, Tariff 707, shall be modified (i.e., changes in rebate levels) as reflected in the modified tariff, which is shown in both "redline" and "clean" format as Exhibit "E" to the Joint Stipulation (Attachment "1").

ORDER

THE COMMISSION THEREFORE ORDERS that the Joint Stipulation and Settlement Agreement executed and filed on November 13, 2015, by the Stipulating Parties to this proceeding and attached hereto as Attachment "1" is fair, just, reasonable, and in the public interest, and is hereby approved in accordance with the findings of fact and conclusions of law hereinabove set forth.


THE COMMISSION FURTHER ORDERS that the modifications to rates and tariff terms shall be made in accordance with the findings of fact and conclusions of law hereinabove set forth.


THE COMMISSION FURTHER ORDERS that the revised Tariffs 101, 101-V, 200-LCI (Exhibit "A" to Attachment "1"), 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, 601-S (Exhibit "B" to Attachment "1"), 1201 (Exhibit "C" to Attachment "1"), 901-T, 1051, 2000 (Exhibit "D" to Attachment "1"), and 707 (Exhibit "E" to Attachment "1") are fair, just, reasonable, and in the public interest, and are hereby approved in accordance with the findings of fact and conclusions of law hereinabove set forth.

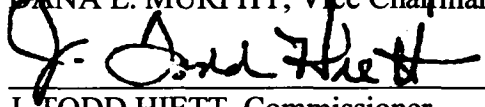
THE COMMISSION FURTHER ORDERS that the Findings of Fact and Conclusions of Law set forth herein are hereby adopted as the Order of the Commission.

THE ORDER SHALL BE EFFECTIVE upon submission to and approval of the form of the revised Tariffs 101, 101-V, 200-LCI, 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, 601-S, 1201, 901-T, 1051, 2000, and 707 by the Director of the Public Utility Division. The revised tariffs to be approved are appended to this Order as Exhibits "A", "B", "C", "D", and "E" to the Joint Stipulation (Attachment "1"), respectively.

OKLAHOMA CORPORATION COMMISSION


BOB ANTHONY, Chairman



DANA L. MURPHY, Vice Chairman


J. TODD HIATT, Commissioner

CERTIFICATION

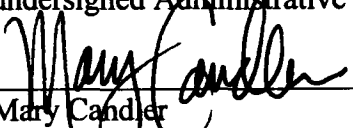
DONE AND PERFORMED by the Commissioners participating in the making of this order, as shown by their signatures above, this 6 day of January, ~~2015~~ 2016

[seal]


PEGGY MITCHELL, Secretary

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The foregoing findings, conclusions and order are the report and recommendation of the undersigned Administrative Law Judge.


Mary Candler
Administrative Law Judge

12/7/15
Date

FILED
NOV 13 2015

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA NATURAL GAS COMPANY, A)
DIVISION OF ONE GAS, INC., FOR A REVIEW)
AND CHANGE OR MODIFICATION IN ITS)
RATES, CHARGES, TARIFFS, AND TERMS)
AND CONDITIONS OF SERVICE)

CAUSE NO. PUD 201500213

JOINT STIPULATION AND SETTLEMENT AGREEMENT

COME NOW the undersigned parties to the above entitled cause and present the following Joint Stipulation and Settlement Agreement ("Joint Stipulation") for the Oklahoma Corporation Commission's ("OCC" or the "Commission") review and approval as their compromise and settlement of all issues in this proceeding among the parties to this Joint Stipulation ("Stipulating Parties"). The Stipulating Parties represent to the Commission that this Joint Stipulation represents a fair, just and reasonable settlement of these issues, that the terms and conditions of the Joint Stipulation are in the public interest, and the Stipulating Parties urge the Commission to issue an Order in this Cause adopting and approving this Joint Stipulation.

It is hereby stipulated and agreed by and among the Stipulating Parties as follows:

TERMS OF THE JOINT STIPULATION AND SETTLEMENT AGREEMENT

1. On May 15, 2015, Oklahoma Natural Gas Company, a division of ONE Gas, Inc. ("Oklahoma Natural") filed a Notice of Intent in this Cause, stating its intent to file a general rate change application on or before August 31, 2015. On July 8, 2015, Oklahoma Natural filed the Application herein, seeking a review and change in its rates, charges, tariffs, and terms and conditions of service.

Base Rate Increase

2. The Stipulating Parties agree that Oklahoma Natural's revenue deficiency for purposes of this Cause is \$29,995,000 inclusive of federal and state income taxes.

Rate Base and Incentive Compensation

3. The Stipulating Parties further agree to the following modifications to Oklahoma Natural's filed position:

- (a) Total Rate Base in the amount of \$1,201,618,244.
- (b) Depreciation Expense adjustment in the amount of (\$5,818,495). As part of this adjustment, Oklahoma Natural's Asset Account 380.0 Services (Plastic) shall reflect a 58-year average life.

- (c) Recovery of short term incentive (STI) compensation shall not exceed the lesser of the 100% target level or the actual total amount paid out. Thus, if Oklahoma Natural pays out at the 110% level, then Oklahoma Natural's recovery is capped at the amount equivalent to the 100% level. Accordingly, if Oklahoma Natural pays out at the 90% level, then Oklahoma Natural shall recover the actual total amount paid out. Oklahoma Natural shall recover STI at this 100% target level within each subsequent PBRC review until otherwise ordered by the Commission.
- (d) No recovery of long term incentive (LTI) compensation.

Capital Structure, Cost of Debt, and Return on Equity

4. The Stipulating Parties further agree to a capital structure at 60.5% equity and 39.5% debt. The Stipulating Parties further agree to adjust this capital structure to reduce equity by 1% point (along with a 1% point increase to debt) within each subsequent annual PBRC review beginning with 59% equity and 41% debt in Oklahoma Natural's 2017 Performance Based Rate Change ("PBRC") review of calendar year 2016 and ending with 56% equity and 44% debt in Oklahoma Natural's 2020 PBRC review of calendar year 2019. The Stipulating Parties further agree that capital structure will be reviewed within Oklahoma Natural's next required general rate review (i.e., Section 1 of the PBRC Tariff) unless otherwise ordered by the Commission. The Stipulating Parties further agree that this capital structure equity adjustment shall serve as a cap. Thus, the capital structure set within each subsequent PBRC review will be the lower of actual equity or the cap.

5. The Stipulating Parties further agree that Oklahoma Natural's cost of debt shall reflect its actual cost of debt in the amount of 3.95%.

6. The Stipulating Parties further agree that Oklahoma Natural's authorized return on equity is 9.5% (i.e. the Allowed Return on Equity as defined within the PBRC Tariff).

7. The Stipulating Parties further agree to the rate design proposed by Oklahoma Natural as explained by Oklahoma Natural and the Public Utility Division of the OCC ("PUD") within their testimony filed in support of the Joint Stipulation.

8. The Stipulating Parties further agree to the new monthly service charge for Oklahoma Natural's customers inclusive of the energy efficiency true-up and utility incentive, but exclusive of gas commodity costs, as follows:

- (a) Residential 101 "A" and 101-V "A" will pay a fixed charge of \$16.10 per month and a volumetric delivery fee of \$4.1143 per dekatherm;
- (b) Residential 101 "B" and 101-V "B" will pay a fixed charge of \$33.24 per month and no volumetric delivery fee; and
- (c) Large commercial will pay a fixed charge of \$91.62 per month and no volumetric delivery fee.

The revised Tariffs 101, 101-V, and 200-LCI (redline and clean versions) are attached hereto as Exhibit "A".

9. The Stipulating Parties further agree to modifications of Oklahoma Natural's Tariffs 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, and 601-S reflecting changes in customer charges. The revised Tariffs 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, and 601-S (redline and clean versions) are attached hereto as Exhibit "B".

Performance Based Rate Change Tariff, Tariff 1201

10. The Stipulating Parties further agree to the following modification to Oklahoma Natural's Performance Based Rate Change Tariff, Tariff 1201: Oklahoma Natural's next general rate review, in lieu of a PBRC review, must be filed no later than June 30, 2021, reflecting a 12-month test year ending December 31, 2020. Thereafter, Oklahoma Natural shall file a general rate review, in lieu of a PBRC review, within five (5) years of the Final Order entered in Oklahoma Natural's last general rate review. These general rate reviews shall be in compliance with the Chapter 70 Minimum Standard Filing Requirements with the exception of modifications to the calculations of rate base, operating revenues, and operating expenses described in Section 6 of the PBRC Tariff. These filings shall contain, at a minimum, updated studies related to capital structure, return on equity, class cost of service, depreciation, and customer growth.

The revised Tariff 1201 (redline and clean version) is attached hereto as Exhibit "C".

11. The Stipulating Parties further agree that Oklahoma Natural shall submit to the Stipulating Parties, as part of its annual PBRC review, a supplemental workpaper calculating, for demonstrative purposes only, the impact of the most recent base rate increase on the amount of earnings-based incentive compensation included in any base rate increase requested under the PBRC Tariff.

12. The Stipulating Parties further agree that the Stipulating Parties shall meet at least once on or before July 31, 2016, to specifically discuss and share analyses regarding the earnings calculation (i.e., actual versus pro-forma), rate base amount utilized within the return on equity calculation, and the sharing of any earnings credit (i.e., Oklahoma Natural falls above the top of the AROE dead-band) within annual PBRC reviews.

Tornado/Storm Damage Costs, Prepaid Pension Asset, ONE Gas Stand-up Costs, Rate Case Expense, and Changes or Modifications to Other Tariffs

13. The Stipulating Parties further agree that Oklahoma Natural shall establish a regulatory asset regarding its actual tornado/storm damage costs not covered by insurance in the amount of \$2,217,192. The Stipulating Parties further agree that Oklahoma Natural shall defer and add any future tornado/storm damage costs not covered by insurance to this regulatory asset. The Stipulating Parties further agree that this regulatory asset shall be utilized to recover these costs amortized over four (4) years and shall earn a full return on this regulatory asset.

14. The Stipulating Parties further agree that Oklahoma Natural shall establish a prepaid pension asset in the amount of \$123,473,215. The Stipulating Parties further agree that Oklahoma Natural shall earn a full return on this prepaid pension asset.

15. The Stipulating Parties further agree that Oklahoma Natural shall recover its allocated portion of the ONE Gas stand-up costs in the amount of \$2,418,236 amortized over four (4) years.

16. The Stipulating Parties further agree that Oklahoma Natural shall recover its actual rate case expense amortized over four (4) years.

17. The Stipulating Parties further agree to modifications of Oklahoma Natural's Tariffs 901-T, 1051, and 2000 to reflect formatting or clarification changes. The revised Tariffs 901-T, 1051, and 2000 (redline and clean versions) are attached hereto within Exhibit "D".

18. The Stipulating Parties further agree to modifications of Oklahoma Natural's Tariff 707 to reflect changes in rebate levels. The revised Tariff 707 (redline and clean version) is attached hereto as Exhibit "E".

19. The Stipulating Parties further agree that this Joint Stipulation represents a fair, just and reasonable settlement of all issues in this proceeding among the Stipulating Parties. The Stipulating Parties further agree that the terms and conditions of this Joint Stipulation are in the public interest.

20. The Stipulating Parties further agree that Oklahoma Natural should be permitted to utilize the revised Tariffs 101, 101-V, 200-LCI, 291-S, 255-T, 291-T, 391-T, 655-T, 691-T, 691-T2, 601-A, 601-S, 1201, 901-T, 1051, 2000, and 707, effective with the final order of the Commission approving all elements of this Joint Stipulation and upon the approval of the form of the tariffs by the Director of the Public Utility Division.

21. General Reservations.

The Stipulating Parties represent and agree that, except as specifically otherwise provided herein:

- a. This Joint Stipulation represents a negotiated settlement for the purpose of compromising and settling all issues which were raised relating to this proceeding.
- b. Each of the undersigned counsel of record affirmatively represents that he or she has full authority to execute this Joint Stipulation on behalf of his or her client(s).
- c. None of the signatories hereto shall be prejudiced or bound by the terms of this Joint Stipulation in the event the Commission does not approve this Joint Stipulation nor shall any of the Stipulating Parties be prejudiced or bound by

the terms of this Joint Stipulation should any appeal of a Commission order adopting this Joint Stipulation be filed with the Oklahoma Supreme Court.

- d. Nothing contained herein shall constitute an admission by any party that any allegation or contention in these proceedings as to any of the foregoing matters is true or valid and shall not in any respect constitute a determination by the Commission as to the merits of any allegations or contentions made in this proceeding.
- e. The Stipulating Parties agree that the provisions of this Joint Stipulation are the result of negotiations, and the terms and conditions of this Joint Stipulation are interdependent. The Stipulating Parties agree that this Joint Stipulation is in the public interest and, for that reason, they have entered into this Joint Stipulation to settle among themselves the issues in this Joint Stipulation. This Joint Stipulation shall not constitute nor be cited as a precedent nor deemed an admission by any Stipulating Party in any other proceeding except as necessary to enforce its terms before the Commission or any state court of competent jurisdiction. The Commission's decision, if it enters an order consistent with this Joint Stipulation, will be binding as to the matters decided regarding the issues described in this Joint Stipulation, but the decision will not be binding with respect to similar issues that might arise in other proceedings. A Stipulating Party's support of this Joint Stipulation may differ from its position or testimony in other causes. To the extent there is a difference, the Stipulating Parties are not waiving their positions in other causes. Because this is a stipulated agreement, the Stipulating Parties are under no obligation to take the same position as set out in this Joint Stipulation in other dockets.

22. Non Severability.

The Stipulating Parties stipulate and agree that the agreements contained in this Joint Stipulation have resulted from negotiations among the Stipulating Parties and are interrelated and interdependent. The Stipulating Parties hereto specifically state and recognize that this Joint Stipulation represents a balancing of positions of each of the Stipulating Parties in consideration for the agreements and commitments made by the other Stipulating Parties in connection therewith. Therefore, in the event that the Commission does not approve and adopt the terms of this Joint Stipulation in total and without modification or condition (provided, however, that the affected party or parties may consent to such modification or condition), this Joint Stipulation shall be void and of no force and effect, and no Stipulating Party shall be bound by the agreements or provisions contained herein. The Stipulating Parties agree that neither this Joint Stipulation nor any of the provisions hereof shall become effective unless and until the Commission shall have entered an Order approving all of the terms and provisions as agreed by the parties to this Joint Stipulation and such Order becomes final and non-appealable.

WHEREFORE, the Stipulating Parties hereby submit this Joint Stipulation and Settlement Agreement to the Commission as their negotiated settlement of this proceeding with

respect to all issues which were raised with respect to this Application, and respectfully request the Commission to issue an Order approving this Joint Stipulation and Settlement Agreement.

**PUBLIC UTILITY DIVISION
OKLAHOMA CORPORATION COMMISSION**

Date: 11/13/15

By: Fairo Mitchell
Fairo Mitchell, Chief of Energy and Water

**OKLAHOMA NATURAL GAS COMPANY, a division
of ONE Gas, Inc.**

Date: 11/13/15

By: Dustin R. Fredrick
Dustin R. Fredrick

**E. SCOTT PRUITT, ATTORNEY GENERAL
STATE OF OKLAHOMA**

Date: 11/13/15

By: Dara M. Derryberry
Dara M. Derryberry, Assistant Attorney General

OKLAHOMA INDUSTRIAL ENERGY CONSUMERS

Date: 11/13/15

By: Thomas P. Schroedter
Thomas P. Schroedter