

LAW OFFICES OF

ANDERSON & BYRD

A Limited Liability Partnership

JOHN L. RICHESON
JAMES G. FLAHERTY
R. SCOTT RYBURN
KEITH A. BROCK
THOMAS H. SACHSE
JEFFREY A. WILSON

216 S. HICKORY, P. O. BOX 17
OTTAWA, KANSAS 66067
(785) 242-1234, *Telephone*
(785) 242-1279, *Facsimile*
www.andersonbyrd.com

ROBERT A. ANDERSON
(1920-1994)

RICHARD C. BYRD
(1920-2008)

May 2, 2016

via e-filing EXPRESS

Ms. Amy L. Green, Secretary
Kansas Corporation Commission
1500 S. W. Arrowhead Road
Topeka, Kansas 66604-4027

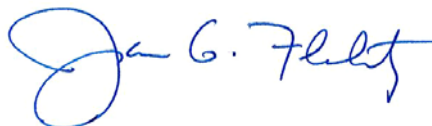
Re: Application of Kansas Gas Service, a Division of ONE Gas, Inc.

Dear Ms. Green:

Kansas Gas Service hereby transmits its Application for Adjustment of its Natural Gas Rates in the State of Kansas, in accordance with K.A.R. 82-1-231.

Thank you for your consideration.

Sincerely,



James G. Flaherty
jflaherty@andersonbyrd.com

JGF:rr
Enclosure

David N. Dittmore
Kansas Gas Service
a Division of ONE Gas, Inc.
7421 West 129th Street
Overland Park, Kansas 66213
(913) 319-8662
david.dittmore@onegas.com

James G. Flaherty
ANDERSON & BYRD, LLP
216 S. Hickory • P. O. Box 17
Ottawa, Kansas 66067
(785) 242-1234
jflaherty@andersonbyrd.com

3. Applicant's current base rates were established in Docket No. 12-KGSG-835-RTS ("835 Docket"). The test period for that docket ended December 31, 2011. The test period in this Application is the 12-month period ending December 31, 2015. In the intervening four-year period, Kansas Gas Service has continued to make significant capital expenditure investments totaling approximately \$230 million to provide safe, reliable and efficient natural gas service to its customers. The Company has also experienced increases in employee wages and benefits and in material and supplier costs. During this same period, the Company has seen a continued decline in per capita residential consumption of natural gas because of more efficient gas usage by customers. The cumulative impact of these factors has necessitated the Company's request for an overall revenue increase of \$28 million. This increase is the product of increasing base rates by \$35.4 million and rebasing amounts currently collected through the Gas System Reliability Surcharge ("GSRS") (\$7.4_ million)..¹

4. The testimony of 14 witnesses and the schedules required by K.A.R. 82-1-231 are filed in support of the Application. The witnesses and the subjects they address are identified in the

¹Ms. Lorna Eaton removes \$5.17 million test period GSRS revenues in Adjustment IS 5. The \$7.4 million in GSRS revenue is the amount authorized for 2016. This larger amount is the appropriate measure of customer impact because it reflects amounts currently paid by customers.

testimony of Company witness Caron A. Lawhorn. The testimony and schedules show that as of December 31, 2015, Applicant's adjusted rate base for Kansas operations was \$902,967,732. The test year adjusted return on the Company's investment in rate base was 4.9%. The schedules filed with the Application establish a gross revenue deficiency of \$35,446,665 based upon normalized operating results for the 12 months ended December 21, 2015, adjusted for known and determinable changes in revenue, operating and maintenance expenses, cost of capital and taxes.

5. As part of the Application, the Company is seeking to discontinue the Pension and Other Post-Employment Benefits ("OPEB") trackers that were established in Docket Nos. 10-KGSG-130-ACT and 07-GIMX-1041-GIV and is seeking to be allowed to include pension and OPEB assets and liabilities as a component of rate base in future rate proceedings. The trackers were useful after the financial crisis in 2008 and 2009 when markets and rates were unstable. However, since the market and rates have become more predictable, these trackers are no longer necessary. In addition, as part of the Application the Company is seeking approval to share the savings between customers and shareholders that have resulted from the pension expenses having been prefunded by the Company. The amount of the savings to be shared is \$5.1 million. One-third of the savings (\$1.7 million) would be provided to the customers and two-thirds to the shareholders (\$3.4 million). The proposed allocation of the savings is appropriate since it was the Company's shareholders who pre-funded these expenses.

6. In this matter, Kansas Gas Service has commissioned Foster Associates, Inc. ("Foster Associates") to review and update depreciation rates as appropriate for utility plant owned and operated by the Company. The 2016 update was undertaken to provide more current depreciation rates than those approved in the 835 Docket. Additionally, Foster Associates was engaged to conduct a 2015 depreciation study of corporate assets allocated to all ONE Gas

divisions. These studies have recommended certain changes to the Company's depreciation rates, which are incorporated in this Application.

7. Applicant is also seeking to establish an annual rate mechanism referred to as a Cost of Service Adjustment ("COSA") mechanism. The COSA mechanism is a proposed three-year pilot formula rate mechanism that will provide a streamlined, transparent and cost effective annual review of the Company's cost of operations and actual return on equity. The COSA mechanism will adopt all of the regulatory procedures, principles and the rate of return established by the Commission in the Order issued in this docket and will include certain safeguards, such as a cap on operating expenses that will benefit customers. Company Witness Dittmore's testimony explains how the COSA mechanism will work. He also identifies the benefits customers will receive if the Commission approves such a mechanism.

8. With respect to rate design, Applicant is proposing a traditional two part rate design with an increase in the monthly customer charge. As explained by Kansas Gas Service Witness Paul Raab in his testimony, the increase in the monthly customer charge will more appropriately provide for the recovery of fixed utility costs by the utility.

9. Finally, the Company is proposing miscellaneous revisions to certain sections of its General Terms and Conditions.

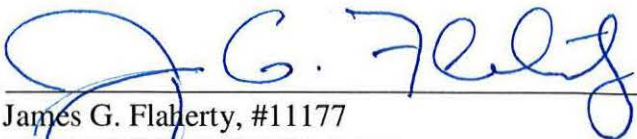
10. The total adjustment in rates requested in this Application is just and reasonable and in the public interest. The request to change the Company's schedule of charges is proposed to allow Applicant to maintain financial integrity and to continue to make investments in its distribution system and service offerings for the benefit of the public.

11. Applicant has on file with the Commission certain schedules of charges and rates for its natural gas service. The Company desires to withdraw certain of the schedules and file new

ones, as reflected in Section 18 filed in support of this Application. The charges reflect the effects of the requested revenue increase and the proposed changes in rate design and General Terms and Conditions. Applicant proposes that the revised schedules become effective thirty (30) days from the date of this filing, as permitted by law, or at such other date as the Commission may prescribe.

WHEREFORE, Kansas Gas Service, a Division of ONE Gas, Inc., respectfully requests the approval and consent of the Commission to withdraw and cancel the referenced natural gas rate schedules and other provisions of its tariffs and to substitute therefore and place in effect the rate schedules and other provisions contained in Section 18 of the Application, which will provide an overall annual revenue increase of \$35.4 million.

KANSAS GAS SERVICE, a Division of ONE Gas,
Inc.

By: 

James G. Flaherty, #11177
ANDERSON & BYRD, LLP
216 S. Hickory • P. O. Box 17
Ottawa, Kansas 66067
(785) 242-1234, telephone
(785) 242-1279, facsimile
jflaherty@andersonbyrd.com

Judy Y. Jenkins, #23300
KANSAS GAS SERVICE
7421 West 129th Street
Overland Park, Kansas 66213-2634
(913) 319-8615, telephone
(913) 319-8622, facsimile
judy.jenkins@onegas.com

Attorneys for Kansas Gas Service,
a Division of ONE Gas, Inc.

VERIFICATION

STATE OF OKLAHOMA)
) ss:
COUNTY OF TULSA)

Eric A. "Rick" Grundman, being duly sworn upon his oath deposes and says that Eric A. "Rick" Grundman is Vice President Rates and Regulatory Affairs of ONE Gas, Inc.; that Mr. Grundman has read and is familiar with the foregoing Application of Kansas Gas Service, a Division of ONE Gas, Inc. filed herewith, and that the statements made therein are true to the best of his knowledge, information and belief.



SUBSCRIBED AND SWORN to before me this 28th day of April, 2016.




_____ Notary Public

Commission/Appointment Expires:

October 25, 2017