

**BEFORE THE
STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the matter of the Application of Kansas Gas)
Service, a Division of ONE Gas, Inc. for)
Adjustment of its Natural Gas Rates in the)
State of Kansas)

Docket No. 18-KGSG-560-RTS

**ANSWER TESTIMONY
OF DON KRATTENMAKER
ON BEHALF OF WOODRIVER ENERGY, LLC**

October 29, 2018

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I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Krattenmaker. My business address is 3300 E. 1st Avenue, Suite 600, Denver, CO 80206.

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

A. I am employed by WoodRiver Energy, LLC as Partner and Vice President of Business Development.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. On behalf of the WoodRiver Energy, LLC.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I currently serve as Partner and Vice President of Business Development at WoodRiver Energy, LLC. I have twenty years of experience in trading and selling natural gas. Prior to working at WoodRiver I managed a sales office of 25 people marketing gas in the Rocky Mountain and upper Midwest states. Currently, at WoodRiver, I direct the company's business development efforts and support the company's on-going sales and marketing and regulatory efforts throughout a seven state region. I received a Bachelors of Science, Business Administration from the University of Colorado – Boulder in 1992.

Q. ARE YOU GENERALLY FAMILIAR WITH THE FILINGS IN PROCEEDING NO. 18-KGSG-560-RTS?

A. Yes.

Q. HAVE YOU TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION?

1 **A.** No. While WoodRiver routinely works on regulatory issues in Kansas, this is my first
2 time testifying at the Kansas Corporation Commission (“KCC”).

3 **II. EXECUTIVE SUMMARY**

4 **Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.**

5 **A.** The purpose of my testimony is to stress the importance of maintaining comparability
6 between rate classes which are similar with respect to the utility’s cost to serve those
7 classes. Here, I am particularly concerned with a change to the general terms and
8 conditions for gas service which distorts the comparability between small volume transport
9 and sales customers. As part of this proceeding, Kansas Gas Service (“KGS”) has
10 eliminated the Required Daily Quantity (“RDQ”) balancing option for small volume
11 transport ratepayers and is instead requiring Electronic Flow Measurement (“EFM”) for all
12 new transport gas customers. This change in policy has been adequately justified by KGS
13 and significantly hurts the comparability of KGS’s small volume transport rate classes
14 against the general service rate classes. Additionally, the requirement that EFM be
15 installed for new customers, is a significant barrier to adding new ratepayers to the rate
16 class. While WoodRiver is facially neutral to the rate increases being sought by KGS,
17 WoodRiver strongly believes that new requirements for EFM is unjustified.

18 **III. BACKGROUND**

19 **Q. CAN YOU EXPLAIN WHO WOODRIVER ENERGY IS AND WHAT SERVICES**
20 **IT PROVIDES?**

21 **A.** WoodRiver is a natural gas transportation company. Sometimes referred to as a natural
22 gas retail marketer or a Competitive Natural Gas Provider (CNGP), a gas transport

1 company buys wholesale natural gas and then sells that gas directly to consumers. A
2 natural gas transport company does not own gas distribution infrastructure, instead it relies
3 on local distribution companies (LDCs) to transport gas to its customers. Gas transport
4 customers enjoy rate certainty due to fixed rate contracts and often have the same or lower
5 rates than comparable gas sales customers. While in the past gas transport services were
6 only available to large volume customers, WoodRiver has worked with LDCs across the
7 United States to make the benefits of gas transport available to small volume customers.

8 **Q. WHO ARE WOODRIVER'S CUSTOMERS?**

9 **A.** WoodRiver has a wide variety of small volume customers, but the majority of our
10 customers are small businesses, school districts, and municipalities.

11 **Q. GENERALLY SPEAKING, WHY IS IT IMPORTANT FOR WOODRIVER TO**
12 **PARTICIPATE IN REGULATORY PROCEEDINGS SUCH AS THIS ONE?**

13 **A.** Like all gas transport companies, WoodRiver does not own the distribution infrastructure
14 necessary to transport its gas to its customers. Instead, WoodRiver relies on LDCs, in this
15 case KGS, to deliver its gas to the end user. WoodRiver's transport gas competes with gas
16 sales by LDCs for market share. Transport gas and sales gas utilize the same distribution
17 system to reach customers. However, because LDCs own the distribution system on which
18 both sales and transport gas rely, the LDCs are incentivized to increase costs and barriers
19 to entry on transport gas, thereby making the LDCs' own sales gas more attractive to
20 customers. WoodRiver's position is that all rate classes, whether sales or transport, should
21 only be charged for costs they actually cause to the LDCs' gas system. WoodRiver

1 participates in regulatory proceedings to ensure that the “cost-causation principle” is
2 faithfully administered.

3 **Q. WHAT IS WOODRIVER’S PHILOSOPHY WITH REGARD TO RATE**
4 **COMPARABILITY BETWEEN RATE SCHEDULES?**

5 **A.** Rate schedules which are similar with respect to the utility’s cost to serve should be treated
6 similarly. Therefore, small customers should be treated the same as other small customers
7 and large customers should be treated the same as other large customers and sales rates and
8 transport rates should be equivalent for customers of similar size.

9 **Q. WHY SHOULD SIMILARLY SITUATED RATE CLASSES BE TREATED**
10 **SIMILARLY?**

11 **A.** One reason for this is simply fairness, but another related reason is that distortion in rate
12 comparability between similarly situated classes leads to cross-subsidization. Cross-
13 subsidies distort customers’ decisions about choosing a rate schedule, if a choice is
14 available to them, as well as decisions about the amount of gas consumption. This
15 distortion impacts the overall welfare of all rate payers due to the compounding effects of
16 rate payer decisions that were socially inefficient.

17 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW ARTIFICIALLY**
18 **MANIPULATING COMPARABILITY CAN LEAD TO SOCIALLY**
19 **INEFFICIENT OUTCOMES?**

20 **A.** Yes. If LDCs under account for the costs of serving gas transport rate payers, more
21 customers would choose transport over sales and other LDCs’ rate payers would be
22 required to cross-subsidize the transport class to cover costs to serve that class. Conversely,

1 if LDCs were to unjustifiably place barriers and costs on transport gas to bolster their own
2 gas sales, rate payers would choose to join a gas sales rate class, even though they would
3 have benefited more under a transport rate class. In the latter scenario gas transport
4 customers would also be cross-subsidizing gas sales customers.

5 **IV. EFM REQUIREMENT FOR SMALL VOLUME**
6 **GAS TRANSPORT CUSTOMERS**

7 **Q. CAN YOU PLEASE DESCRIBE THE PROPOSAL BY KGS TO REQUIRE EFM**
8 **FOR SMALL VOLUME GAS TRANSPORT CUSTOMERS?**

9 **A.** Yes. As part of KGS's rate case they are proposing change to the general terms and
10 conditions for gas service to eliminate the Required Daily Quantity ("RDQ") balancing
11 option for small volume transport ratepayers and is instead requiring Electronic Flow
12 Measurement ("EFM") for all new transport gas customers.

13 **Q. WHY IS KGS MAKING THIS CHANGE?**

14 **A.** KGS does not justify this change in their direct testimony to the KCC, but in my experience
15 with other LDCs it is often argued the electronic monitoring for small volume transport
16 customers is required for balancing purposes.

17 **Q. WHAT IS BALANCING AND WHY IS IT IMPORTANT?**

18 **A.** Natural gas customers are rarely able to forecast exactly how much gas they will need on
19 any given day. Often the amount the customer forecasts, or "nominates," is different from
20 the actual amount of gas that was metered. The difference in the amount nominated and
21 the amount actually used creates an imbalance in the LDCs' system. Balancing is the
22 process by which the nominated amount is "trued-up" with the metered amount. When

1 there is an imbalance in the LDCs' system there is either too much gas in the system when
2 customers underuse their nominated amounts, theoretically leading to over pressure of the
3 system, or too little gas in the system when customers overuse, theoretically threatening
4 the ability of the LDC to meet all customer demands for gas. In practice, however, LDC
5 systems are purposefully built for large tolerances in gas usage by relying on storage to
6 hold extra gas on underuse days and then dispense it on overuse/peak demand days. The
7 true cost of balancing is tracking and administering the accounting of gas usage by
8 customers. Consequently, the real-world issue of imbalances is an accounting problem,
9 rather than an engineering problem.

10 **Q. IS DAILY BALANCING AND TELEMETRY NECESSARY OR PRUDENT FOR**
11 **MOST SMALL VOLUME CUSTOMERS?**

12 **A.** No. The volumes of gas used, or not used, by small volume users are not enough to cause
13 substantial imbalances in the LDCs' distribution system. Even in the unlikely event that
14 many small volume customers underuse or overuse at the same time, the volumes are
15 simply not enough to cause an overall impact to the LDCs' system. Balancing is primarily
16 a concern for large volume users whose cumulative use or underuse can cause real
17 problems for the operation of a system. The amounts used by small volume transporters is
18 merely an accounting issue, and a small and easily managed one at that. It is for this reason
19 that the threshold for daily balancing and telemetry in most LDCs' tariffs are 200 Dth per
20 day or 6,000 Dth per month or more. KGS previously allowed small volume customers
21 the option to pay for RDQ balancing option in lieu of installing EFM. There is no evidence
22 in the record that the RDQ balancing option was problematic. In fact, KGS's decision to

1 allow current small volume transport customers the ability to purchase the RDQ option
2 tends supports the fact that there is no real technical reason for the policy change.

3 **Q. WHAT ARE THE CONSEQUENCES OF REQUIRING THAT MARGINAL**
4 **SMALL VOLUME CUSTOMERS INSTALL EFM?**

5 **A.** EFM technology is expensive and requires the purchase of a landline telephone. As part
6 of its Electronic Flow Measurement Rider tariff, KGS charges either \$3,200 or \$4,800 for
7 the installation of EFM. In addition, the customer must maintain a landline telephone line.
8 These costs represent a substantial financial hardship for many small volume customers.
9 We have seen with other LDCs who have required EFM or other forms of natural gas
10 “telemetry” for small volume customers that many customers abandon gas transport rate
11 classes and switch to general service or not simply show interest in joining a small volume
12 transport rate class when telemetry is required. The cost and administrative burden of
13 telemetry is a major issue with many of our school district and small business customers,
14 especially those who have multiple meters. On the other hand, I have not seen any evidence
15 that EFM or other forms of telemetry on small volume customers provide any substantial
16 system benefits to the LDC. If implemented by the KCC, the requirement of EFM for the
17 small volume customers will endanger the success of the rate classes for little to no benefit.

18 **Q. WHAT ARE ALTERNATIVES TO THE PROPOSAL THAT SMALL VOLUME**
19 **CUSTOMERS INSTALL EFM?**

20 **A.** There are alternatives to requirement that small volume customers install EFM. The first,
21 and easiest alternative to implement, is to simply lower the daily use threshold for the RDQ
22 option. If KGS can show evidence that small volume gas transporters using less than 1,500

1 Mcf per month create balancing issues, then they can lower the threshold to a level which
2 is not problematic. In my experience, however, even monthly peak usage at 1,500 Mcf is
3 not an issue. Another potential solution is a technical one. If the EFM equipment required
4 by KGS for small volume transport customers were cheaper, then requiring it would be
5 less burdensome. WoodRiver has worked with other LDCs to research telemetry hardware
6 based on cellular technology and would be willing to do the same with KGS.

7 **V. RECOMMENDATIONS**

8 **Q. DO YOU HAVE ANY RECOMMENDATIONS AS TO HOW THE COMMISSION**
9 **SHOULD RULE ON THIS APPLICATION?**

10 **A.** Yes. The Commission should reject KGS's proposal to require EFM on small volume
11 customers. Alternatively, if KGS is able to provide evidence of the need for EFM under
12 certain conditions, the Commission could require KGS to preserve the RDQ option for
13 small volume transport customers at a lower peak usage threshold.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes.

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Dated this 29th day of October, 2018.

My Commission Expires: 9-21-21

NOTARY PUBLIC

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of October 2018, a true and correct copy of the foregoing Answer Testimony of Don Krattenmaker on Behalf of WoodRiver Energy, LLC, was served via email on the following:

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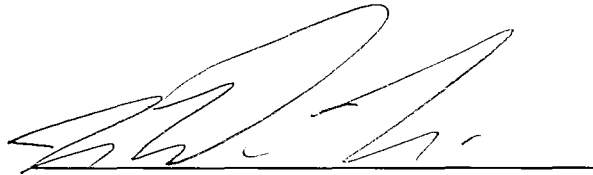
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