BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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| In the Matter of the Investigation into Kansas Gas Service Company, a Division of ONE Gas, Inc. Regarding the February 2021 Winter Weather Events, as Contemplated by Docket No. 21-GIMX-303-MIS | ) ) ) ) | Docket No. 21-KGSG-332-GIG |

# PLAN TO MINIMIZE THE FINANCIAL EFFECTS OF THE 2021 WINTER WEATHER EVENT

As provided for in the Kansas Corporation Commission's ("Commission") Order opening this docket on March 9, 2021 ("Order"), Kansas Gas Service Company, a Division of ONE Gas, Inc., ("KGS" or "Company" and "ONE Gas," respectively) files a plan to minimize the financial effects of the February, 2021 winter weather event ("Plan").[1] KGS seeks approval of its Plan. Under the Plan, KGS would apply for a Financing Order in a separate docket pursuant to the applicable provisions contained in the Utility Financing and Securitization Act passed by the Kansas Legislature in 2021 ("Act").[2] The Financing Order would authorize the issuance of Securitized Utility Tariff Bonds to finance the Qualified Extraordinary Costs (as defined by the Act) incurred by KGS as a result of the 2021 winter weather event ("Winter Event") in order to minimize the financial impact on the Company and its customers.

The other main elements of the Plan include the: (1) identification and quantification of the Qualified Extraordinary Costs to be financed under the Plan; (2) range of time periods to be used to collect the Qualified Extraordinary Costs from customers under a Securitized Utility Tariff Charge that would be the same as the term of the Securitized Utility Tariff Bonds; (3) method of allocating

[1]Order Adopting Staff's R&R to Open Company-Specific Investigations; Order on Petitions to Intervene; Protective Order and Discovery Order issued March 9, 2021, Docket No. 21-KGSG-332-GIG ("Order").

[2]Kansas Utility Financing and Securitization Act, Senate Substitution for House Bill No. 2072, published in Kansas Register April 22, 2021, sos.ks.gov/publications/register/volume-40/issue%2016/04-22-21-49065.html. Capitalized terms contained in this filing have the meanings set forth in new Section 1(b) of the Act.

the Qualified Extraordinary Costs among customer classes and the use of a fixed monthly Securitized Utility Tariff Charge to recover the Qualified Extraordinary Costs from customers; and (4) future rate-making process to reconcile any differences between the Securitized Utility Tariff Costs financed by the Securitized Utility Tariff Bonds and the final Securitized Utility Tariff Costs incurred by KGS relating to the Winter Event. The reconciliation process would include, but is not limited to, KGS crediting customers for: (i) the net penalty amounts recovered by KGS after the Securitized Utility Tariff Bonds have been issued; (ii) the net disputed purchased gas cost invoice amounts, if any, recovered or received by KGS after the Securitized Utility Tariff Bonds have been issued and (iii) any subsequent federal or state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc., recovered by KGS after the Securitized Utility Tariff Bonds have been issued.

To the extent that KGS would need a waiver of any of its existing tariffs in order to implement its Plan, including its Cost of Gas Rider ("COGR") tariff, the Company requests approval of said waivers.

The Plan, and in particular, the request for approval by the Commission to allow KGS to file for a Financing Order under the Act in a separate docket to use Securitized Utility Tariff Bonds to finance the Qualified Extraordinary Costs, will save customers over $70 million in costs when compared to the costs that would result from the application of the traditional method of cost financing and recovering those costs. However, should the Commission elect not to approve the Plan as submitted by KGS, then as an alternative, the Company would request recovery of its extraordinary gas costs and other costs related to the Winter Event, including carrying costs based upon the Company's weighted cost of capital, over three years through a Winter Event Rider.

In support of its Plan, KGS states as follows:

## I. INTRODUCTION AND BACKGROUND

1. KGS is a natural gas public utility operating in the state of Kansas pursuant to certificates of convenience and necessity issued by the Commission. The Company's principal place of business within the state of Kansas is located at: 7421 West 129th Street, Overland Park, Kansas 66213. KGS is a Division of ONE Gas. KGS serves approximately 645,000 customers in Kansas. ONE Gas also serves natural gas customers in Oklahoma and Texas.

2. On February 14, 2021, Governor Kelly issued a State of Disaster Emergency due to wind chill warnings and stress on utility and natural gas providers, noting that the current sub-zero temperatures were causing increased energy demand and natural gas supply constraints throughout Kansas, and utilities were currently experiencing wholesale natural gas price increases from 10 to 100 times higher than normal.[3]

3. On February 15, 2021, pursuant to K.S.A. 77-536(a), the Commission issued an Emergency Order in Docket No. 21-GIMX-303-MIS ("21-303 Docket") directing all jurisdictional natural gas and electric utilities to coordinate efforts and take all reasonably feasible, lawful, and appropriate actions to ensure adequate transportation of natural gas and electricity to interconnected, non-jurisdictional Kansas utilities ("Emergency Order"). Jurisdictional natural gas and electric utilities were ordered to do everything necessary to ensure natural gas and electricity service continued to be provided to their customers in Kansas.[4]

4. The Emergency Order also authorized every jurisdictional electric and natural gas distribution utility that incurs extraordinary costs associated with ensuring that their customers or the

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[3]Extreme Weather State of Disaster Emergency Proclamation issued February 14, 2021 ("Emergency Proclamation"). governor.kansas.gov/up-content/uploads/2021/02/2-14-2021-extreme-weather-disaster-declaration-executed.pdf.

[4]Emergency Order issued February 15, 2021, Docket No. 21-GIMX-303-MIS ("Emergency Order").

customers of interconnected Kansas utilities that are non-jurisdictional to the Commission, continue to receive utility service during the unprecedented cold weather event to defer those costs to a regulatory asset account.[5] The Commission indicated that all deferred costs shall be segregated by detailed cost category and shall contain enough detail for the Commission to perform a subsequent review for prudence and reasonableness.[6] The costs included the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies, and any other reasonable costs necessary to ensure stability and reliability of natural gas and electricity service.[7] The deferred costs were to also include carrying costs at the utility's weighted average cost of capital.[8]

5. Finally, the Commission's Emergency Order directed each jurisdictional utility to file a compliance report in the docket detailing the extent of such costs incurred and present a plan to minimize the financial impacts of this event on customers over a reasonable time frame once the Winter Event ended.[9]

6. On March 1, 2021, Staff filed a Report and Recommendation ("Staff R&R") to open a series of company-specific dockets to allow the utilities to file financial impact plans; and for Staff to tailor its investigation to match each utility's unique circumstances.[10] Staff also recommended that

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[5]*Id*. at page 2, paragraph 4.

[6]*Id*.

[7]*Id*.

[8]*Id*.

[9]*Id*. at page 3, paragraph 5.

[10]Staff's Report and Recommendation filed March 1, 2021, Docket No. 21-GIMX-303-MIS, page 2, paragraphs 3-5.

each utility file its plan to minimize the financial effects of the Winter Event into the company-specific investigation dockets, instead of as a compliance filing in the 21-303 Docket.[11]

7. On March 9, 2021, the Commission issued its Order adopting Staff's R&R and ordered each utility to file its plan to minimize the financial effects of the Winter Event.[12] This filing is submitted to comply with that Order.

## II. WINTER EVENT

8. As explained by Company witnesses Matt Robbins and Sean Postlethwait in their Direct Testimony filed in support of the Plan, the Winter Event was a catastrophic, major coast-to-coast weather event that spread snowfall and damaging ice in the United States from the Northwest into the South, Midwest and Northeast.[13] The weather event produced the coldest temperature in decades and impacted millions of lives across the state of Kansas.[14] Considering the low temperatures with sub-zero wind chills which were accompanied by snow, sleet and freezing rain, the Governor of the State of Kansas issued a State of Disaster Emergency Proclamation ("Emergency Proclamation") for all Kansas counties and federally recognized Indian tribes in Kansas on February 14, 2021.[15] The Emergency Proclamation directed the Adjutant General of the State of Kansas to activate the disaster response and recovery portions of the Kansas Response Plan.[16] The Weather Event began to affect parts of Kansas on February 1, 2021, with colder than normal temperatures.

[11] *Id*.

[12] *See* Footnote 1.

[13] Matt Robbins Direct Testimony ("Robbins Testimony"), page 14, line 1 through page 15, line 7; Sean Postlethwait Direct Testimony ("Postlethwait Testimony"), page 5, lines 16-18.

[14] Robbins Testimony, page 14, lines 3-9.

[15] Robbins Testimony, page 5, lines 16-23.

[16] *See* Footnote 3.

From February 6, 2021, through February 19, 2021, parts of Kansas, including areas served by KGS, experienced unprecedented cold temperatures, drastically increasing the demand for natural gas and stressing the KGS distribution system as well as other utility systems statewide.[17] From February 6, 2021, through February 19, 2021, temperatures ranged from 41% colder than normal to 141% colder than normal as measured through the Kansas City International Airport (MCI) weather data.[18] As these colder temperatures began to settle in across the state, a significant spike in the price of the natural gas commodity occurred on February 12, 2021. Following this price spike, the winter storm continued for several days, with temperatures dropping to over two times colder than normal for several days in a row. While Kansas has experienced significantly colder than normal temperatures in the past, the sustained cold and the size of the region affected were unprecedented.[19] Additionally, as the cold continued, electrical power outages began to further impact gas supply and upstream pipeline operations. Upstream pipeline suppliers were experiencing critical conditions and suppliers issued notices of force majeure with uncertain duration. The winter storm also coincided with a holiday weekend buying schedule, which required KGS to purchase gas by Friday, February 12, 2021, for the period of Saturday, February 13 through Tuesday, February 16, 2021. While faced with this challenging environment, maintaining system integrity remained at the forefront of KGS' efforts.[20]

9. Throughout the Winter Event, the weather forecasts were regularly changing and there was an extended duration of below-freezing temperatures throughout the state. Specifically, Kansas City was below freezing for exactly 13 days beginning on February 6 until February 19. Similarly,

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[17]Postlethwait Testimony, page 6, lines 2-5.

[18]Robbins Testimony, page 14, lines 3-6.

[19]Robbins Testimony, page 14, lines 9-11.

[20]Postlethwait Testimony, page 8, lines 12-14.

the city of Wichita stayed below freezing for 12 days beginning on February 7. To help put that in context, a measurement known as a Heating Degree Day ("HDD") is used to illustrate how cold the temperature was on a particular day or during a period of days and relates to the demand for energy necessary to heat a structure. For the sake of comparison to normal February HDDs, Kansas City had 20 days in February that were colder than normal while Wichita had 18 days. This meant the demand for energy to heat homes or buildings was significantly higher than typical demand.[21]

10. As testified to by Mr. Robbins, KGS's average daily throughput volume during the winter is 478,115 MMBtu. During the Winter Event starting Thursday, February 11, 2021, through Friday, February 19, 2021, KGS had a total throughput of 8,293,443 MMBtu, or an average of 921,494 MMBtu per day. This equated to approximately two times greater than the average daily volume under normal weather conditions.[22]

## III. KGS'S GAS SUPPLY PURCHASING DECISIONS DURING THE WEATHER EVENT

### A. KGS's GAS SUPPLY PLAN

11. As explained by Mr. Robbins, KGS sources its gas supply upstream of its city gates from twelve pipelines (eight Interstate and four Intrastate) providing liquidity and a diversity of the Company's supply. KGS's contractual pipeline capacity extends back to specific production basins located in Kansas (approximately 30%), Oklahoma (approximately 43%), and the Rockies (Colorado and Wyoming approximately 27).[23] The following table[24] summarizes KGS's pipeline capacity and the approximate number of customers downstream of each pipeline:

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[21]Robbins Testimony, page 14, line 21 through page 15, line 6.

[22]Robbins Testimony, page 17, lines 19-20.

[23]Robbins Testimony, page 7, lines 19-21.

[24]Robbins Testimony, page 8, line 1.

| | Pipeline | Type | Capacity | % | Customers | % |
|---|---|---|---|---|---|---|
| 1 | **Southern Star Central Gas Pipeline (SSCGP)**<br>183 Service areas including: Kansas City, Topeka, Wichita, Leavenworth, and Emporia | Interstate | 627,000 | 61.2% | 501,380 | 77.4% |
| 2 | **KGS Transmission (KGST)**<br>123 Service areas including: Salina, Manhatten, Hutchinson, Junction City, Great Bend | Intrastate | 175,000 | 17.1% | 128,327 | 19.8% |
| 3 | **Kansas Pipeline Company**<br>Ottawa, Osawatomie, and Paola; Also supports Kansas City and Wichita | Interstate | 71,754 | 7.0% | 8,565 | 1.3% |
| 4 | **Panhandle Eastern Pipe Line**<br>23 Service areas including: Stillwell, Stanlin, Bucklin, and Minneola; Also supports KGST, Kansas City, and Wichita | Interstate | 51,547 | 5.0% | 4,550 | 0.7% |
| 5 | **Cheyenne Plains** (Supports SSCGP and KGST) | Interstate | 50,000 | 4.9% | | |
| 6 | **Tallgrass** (Supports Kansas City Area) | Interstate | 20,000 | 2.0% | | |
| 7 | **Mid Continent Market Center**<br>Stillwell, Stanlin, Bucklin, and Minneola; Also supports Wichita | Intrastate | 11,000 | 1.1% | 2,067 | 0.3% |
| 8 | **Black Hills**<br>New Salem, Haven, Mt Hope, and Mt Vernon | Intrastate | 10,000 | 1.0% | 931 | 0.1% |
| 9 | **ANR** (Alta Vist, Dewight, and Wamego) | Interstate | 5,651 | 0.6% | 324 | 0.1% |
| 10 | **Northern Natural Gas**<br>11 Service areas including: Claftin, Miltonvale, and Hollyrood | Interstate | 2,269 | 0.2% | 1,672 | 0.3% |
| 11 | **NGPL** (Glasco) | Interstate | 560 | 0.1% | 244 | 0.0% |
| 12 | **ONEOK Field Services** (Wholesale & Farm taps) | Intrastate | 200 | 0.0% | 29 | 0.0% |
| | Total | | 1,024,981 | 100.0% | 648,090 | 100% |

12. The Company's supply portfolio includes a variety of long-term, seasonal and short-term contracts. In 2020, 39% of the Company's annual purchase requirements came from long-term supplies, 50% from seasonal supplies, and 11% from short-term supplies. The available types of pricing for gas supplies are: First-of-Month ("FOM") Index; Gas Daily Daily ("GDD") index or Fixed-Price.[25]

13. Commodity purchases are completed under the terms of a North American Energy Standard Board, Inc., ("NAESB") "Base Contract for Sale and Purchase of Natural Gas," which is a standard contract form that is widely used throughout the industry. The pricing and delivery terms for gas commodity purchases under these agreements are established separately under transaction confirmations. Contract lengths vary according to the terms. More specifically, 'long-term' contracts

[25]Robbins Testimony, page 5, lines 8-11.

are typically defined as those agreements with terms of at least one year. Similarly, 'seasonal' agreements contain terms of more than one month but less than one year and 'short-term' agreements have terms of one month or less. There are different types of gas supply transactions available under NAESB contract and the type determines how the gas is made available and at what type of pricing.[26]

14. The Company's overall gas supply portfolio factors in historical weatherized usage and optimizes an assortment of supply contracts, storage, and various transportation agreements over 12 upstream pipelines serving 360 communities. The supply portfolio is designed to be flexible enough to handle low baseload usage during the summer and a larger range of usage during the winter, to include normal to extremely high usage on critical days. Because of the extreme variations in weather, it is important for the Company to plan for and seek out gas supply, storage and transportation resources that are reliable and flexible in order to meet the changes in customer demand. The overall portfolio is reviewed and implemented annually in advance of the winter season and to obtain contracts that are competitively bid when reasonably possible.[27]

15. KGS maintains a Gas Supply Plan that it updates annually. A copy of the Gas Supply Plan that was in effect during the winter storm is attached to Mr. Robbins' testimony as Confidential Exhibit MR-1. The Gas Supply Plan provides a comprehensive framework to meet the baseline and variable needs of KGS's customers at reasonable costs within the operational and management requirements of the Company. The Gas Supply Plan is designed for KGS to achieve a diversified gas supply and services portfolio that meets the following criteria: reliability, flexibility, volatility mitigation, and just and reasonable costs. The Gas Supply Plan also provides that KGS may deviate from the plan to accommodate changing market and/or economic conditions. KGS files the plan with

[26] Robbins Testimony, page 5, lines 12-21.

[27] Robbins Testimony, page 9, line 22 through page 10, line 7.

the Commission every year pursuant to the requirements contained in Docket No. 106,850-U/75-GIMC-009-GIG and meets with members of the Commission Staff and the Citizens' Utility Ratepayer Board ("CURB") to discuss the Plan, including any changes in the Plan.[28]

16. The Company uses both financial and physical hedging to manage cost of gas price volatility. Since 2005, KGS has used financial call options as a measure of protection to mitigate against potential spikes in the price of natural gas passed through to customers. An option premium is paid for a set strike price in advance (when the call option is purchased) to protect against the possibility of even greater expense later. This form of hedging is similar to how an insurance policy works. The goal of the KGS price mitigation plan is to hedge 67 percent (67%) of the anticipated monthly winter volumes to be consumed by its customers based on the Company's historical five-year average of monthly winter volumes. The Company relies on physical storage as the first layer of volatility hedging which equates to 35 percent (35%) of the goal. Next, KGS uses financial call options to reach the 67 percent (67%) threshold in its Kansas service areas, which equates to approximately 32 percent (32%) of the Plan.[29]

## B. KGS'S GAS SUPPLY DECISIONS DURING THE WEATHER EVENT

17. As indicated by Mr. Robbins in his Direct Testimony, KGS began preparing for the Weather Event forecasted to exceed KGS's peak design day in many areas throughout the state as information became available on February 6, 2021. KGS began discussing the likelihood of a significant cold weather event with ONE Gas' Gas Supply personnel on February 7, 2021. KGS's Gas Supply Department began holding meetings and collaborating with KGS Field Operations, Gas Control and Engineering on Wednesday, February 10, 2021, to ensure gas supply was delivered to city

[28]Robbins Testimony, page 10, lines 9-18.

[29]Robbins Testimony, page 11, lines 3-8.

gates on the system to meet peak demands during the upcoming weather. Prior to the morning of Thursday, February 11, 2021, several of KGS's upstream pipelines had issued winter weather notices, experienced strained operating conditions and issued operational flow orders. These notices all required KGS to stay in balance on the pipeline and to match its gas receipts to its gas deliveries, and to take steps to not be short on supply to meet customer demand.[30]

18. Each business day, Gas Supply managers were calling on required volumes to meet forecasted demand by 7:30 am. Additionally, KGS prepared for the Winter Event using the tools described in the KGS Gas Supply Plan including GasDay forecasts, current gas nominations, monitoring of weather station forecast, and historical peak day information. Communication, both internally and externally, was also key in preparing for the Winter Event. Internally, KGS Gas Supply participated in meetings with the Company's Operations, Engineering, Gas Control and Commercial departments. These meetings resulted in assistance in determining gas flows and scheduling to key city gates, and review of the curtailment plan. Externally, KGS contacted upstream pipelines and suppliers, providing advance notice of anticipated demand. During these communications, KGS learned that its upstream pipelines staffed key city gates with technicians onsite 24 hours a day/7 day a week during the winter storm and made adjustments upstream in advance of the winter storm to improve pipeline pressures. These opened lines of communication continued throughout the Winter Event. KGS also communicated with customers through local news, social media outlets and email to encourage conservation.[31] Examples of those communications are included with Mr. Postlethwait's testimony.[32]

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[30]Robbins Testimony, page 15, lines 9-20.

[31]Robbins Testimony, page 15, line 21 through page 16, line 13.

[32]Postlethwait Testimony, page 14, line 19 through page 15, line 6.

19. KGS's Gas Supply Department was focused on overall system integrity and obtaining necessary gas supplies to continue to provide service to its customers. KGS's customer base is 91 percent (91%) residential throughout the state, and these customers depend on KGS for the gas necessary to heat their homes and to operate gas-fired appliances. KGS had to find a way to maintain service to human needs customers and understood that its actions could affect whether customers survived the storm. Gas Supply's priorities were in line with the Commission's expectations as stated in the Emergency Order. Specifically, the Emergency Order acknowledged the extraordinary costs gas utilities might incur to respond to the Winter Event, and the Commission ordered utilities ". . .to do all things possible and necessary to ensure natural gas and electricity utility services continue to be provided to their customers in the State." At all times, the direction to KGS was consistent: attach a higher priority to human needs than to price.[33]

20. KGS's Gas Supply Department made sure these priorities were met by working collaboratively within the department and with employees throughout Kansas, Texas, and Oklahoma from Operations, Engineering, Gas Control, and Commercial groups as well as senior management. Gas Supply employees maintained this commitment throughout the winter storm. Gas Supply also relied on and followed the framework established in the KGS Gas Supply Plan.[34]

21. Gas Supply relied on GasDay forecasting modeling, the weather forecast, historical use information, pipeline notices, information gleaned from daily supplier calls and internal calls with ONE Gas management and leaders in each division. KGS used a daily weather service ("DTN") to provide actual and forecasted temperatures for five weather stations across Kansas. This information is used in the GasDay model for forecasting daily demand. The five weather stations are Kansas City,

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[33] *See* Footnote 4.

[34] Robbins Testimony, page 17, lines 6-10.

Wichita, Topeka, Salina, and Parsons. The model calculates the forecasted load for seven days. The Company ran the GasDay model twice a day, once before 7:00 am and then mid-day after the previous day's pipeline measurements of throughput had been received. Gas Supply then compared the forecasted load to the currently nominated volumes to identify the additional gas volumes KGS needed. Gas Supply then secured the additional gas volumes needed from either storage or the commodity market to meet the forecasted demand for KGS's operating area. Gas Supply compared the forecasted temperature going into the winter storm to historical winter event temperatures. This comparison allowed Gas Supply to review the measured usage, by city gate, on days with similar weather to determine where demand would be occurring on the KGS system during the winter storm.[35]

22. The upstream pipeline notices of weather advisories, operational flow order, operational alerts, plant under-performance, and gas supply cut notices, kept KGS informed about the status of upstream pipeline conditions. This information was then evaluated with KGS's other data and used in the Company's planning efforts. Gas Supply planned for and secured supply in order to stay in balance with upstream pipelines. This meant that KGS's gas receipts or nominations (the volume of gas received) matched its gas deliveries to customers. However, as the winter storm moved through the state and upstream pipeline and supply conditions deteriorated, staying in balance became more difficult despite the best efforts of KGS. KGS continued to make nominations (or purchases) to ensure continued service for its customers even though suppliers could not deliver all the nominated volumes.[36]

23. During a typical month, KGS's Gas Supply Department will submit its first-of-month baseload nominations for the upcoming month of business. Throughout the month, KGS's Gas Supply

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[35]Robbins Testimony, page 18, lines 1-20.

[36]Robbins Testimony, page 19, lines 3-11.

Department runs the GasDay model twice a day, before 7:00 a.m. and again in the afternoon. The forecast generated by the model is compared to the current nominated volumes. A recommendation is then made to the Gas Supply managers concerning the need for purchasing of additional volumes to meet the demand. Each morning, based on the recommendation received concerning the need for additional supply, Gas Supply managers use their gas supply portfolio of callable contracts and storage to secure the needed volumes for the next day's gas flow. The supply callable contracts are already in place and are priced with index-based pricing; therefore, Gas Supply managers are only informing the supplier of the volumes needed prior to the contracted deadline in the morning which is typically 7:30 a.m. The GasDay model also provides a forecast for the same-day gas that is flowing, and Gas Supply managers receive a recommendation concerning the need for additional volumes on the current gas day. In a typical day, these additional requirements are filled with available storage gas or sometimes with spot gas-same-day purchases, if needed. This process is followed every day of the week, except on weekends or on the holidays when the market is closed. On days when the market is closed, the availability of spot gas purchases is limited, so KGS relies on storage gas or pipeline operating balancing agreements to cover changes in demand.[37]

24. During the Winter Event, KGS followed the same processes it would for a typical day. However, under normal conditions, KGS can access gas in storage, gas is readily available from suppliers and weather conditions are more stable. But, during the Winter Event, KGS's forecasts for additional usage exceeded its contractual storage withdrawal rights with providers. In other words, KGS's forecasts were indicating that the Company could not take any more gas out of storage and, unlike during normal conditions, additional gas was needed on the same day to cover the changing forecast and additional demand. Throughout the storm, suppliers of both next-day and same-day gas

[37]Robbins Testimony, page 19, line 23; page 20, line 16.

supplies were telling the Company's Gas Supply managers they would do their best to provide the gas they quoted to KGS, but they were also giving oral force majeure notices over the phone at the time KGS was attempting to secure the needed gas. During this time, upstream pipeline conditions were changing and deteriorating. KGS experienced pressure issues at a few city gates, and for a period of time was concerned about losing the gas supply from the Jayhawk processing plant located in Southwest Kansas and owned and operated by Scout Energy Partners, which drastically reduced its ability to supply gas into Southern Star, that supplies most of KGS's customers. KGS's Gas Supply Department had to quickly work with upstream partners to purchase additional gas to cover expected supply reductions.[38]

25. As set forth in Mr. Robbins' testimony, ahead of the Presidents' Day holiday, KGS secured the gas volumes needed on the morning of Friday, February 12, 2021 to meet forecasted loads for Saturday, February 13, 2021, through Tuesday, February 16, 2021. An extra day of gas purchases was required because the market was going to be closed on Monday, February 15, 2021, for Presidents' Day. Additional gas supply was secured from existing contracted baseload, contracted callable and storage as well as spot purchases at gas daily indexed to meet system demands. KGS's daily purchasing decisions during the Winter Event were based on securing supply to meet peak design demand; operational upstream pipeline balancing needs; and to support KGS system demands to serve all customers.[39] Under typical weather and operating conditions, KGS relies on baseload, callable, and storage gas supplies. During the Winter Event, KGS was required to utilize existing callable contracts it had with its suppliers. KGS also had to supplement the existing callable gas with spot purchases to ensure supply for customers' demand. This effort was made more challenging as the winter storm

[38]Robbins Testimony, page 20, line 19 through page 21, line 10.

[39]Robbins Testimony, page 21, lines 13-21.

exacerbated problems with the availability of supply, including spot gas. As a result, KGS primarily relied on next day callable and spot purchases priced at the market based on a daily index. Spot purchases were the best option for securing gas for next day supply in areas where callable next day volumes had been exhausted.[40]

26. The unprecedented increase in natural gas prices that occurred during the Winter Event are evident when comparing those prices to the average February gas daily index price for the last five years as shown in the table[41] below:

| February | SSCGP | PEPL | NGPL | NGPL Amarillo | Enable | ANR | Cheyenne Hub |
|---|---|---|---|---|---|---|---|
| 2017 | $2.566 | $2.584 | $2.596 | $2.642 | $2.558 | $2.587 | $2.583 |
| 2018 | $2.214 | $2.194 | $2.272 | $2.504 | $1.829 | $2.311 | $2.304 |
| 2019 | $2.529 | $2.481 | $2.309 | $2.624 | $2.495 | $2.526 | $2.595 |
| 2020 | $1.624 | $1.545 | $1.538 | $1.699 | $1.731 | $1.639 | $1.621 |
| 2021 | $75.311 | $45.860 | $46.763 | $33.918 | $84.510 | $38.164 | $33.850 |

For another comparison, the table below provides the highest price per index for February 2021 and the highest price in the previous 15 years.[42]

| | SSCGP | PEPL | NGPL | NGPL Amarillo | Enable | ANR | Cheyenne Hub |
|---|---|---|---|---|---|---|---|
| February 2021 | $622.785 | $224.560 | $381.480 | $180.195 | $428.60 | $213.895 | $187.690 |
| Past 15 years | $31.265 | $32.855 | $23.050 | $23.600 | $35.520 | $24.290 | $35.030 |

27. KGS did not have any control over the market price of gas that was available during the Winter Event. KGS competitively bids its supply contracts in advance of the winter or business month, and these contract prices are tied to a market index. As shown by the prices in the charts in the previous paragraph, the market gas daily index-based prices rose to unprecedented levels. KGS

[40]Robbins Testimony, page 22, lines 1-8.

[41]Robbins Testimony, page 22, line 11.

[42]Robbins Testimony, page 22, line 14.

could not have negotiated with suppliers to obtain price reductions during the Winter Event and there was a high probability that the supply would not have been available if KGS had not purchased the gas supplies when it did and it is likely that customers would have lost service during the coldest days of the Winter Event.[43]

C. ACTIONS TAKEN BY KGS FOLLOWING THE WINTER EVENT

28. Following the Winter Event, KGS Gas Accountants completed their normal invoice reconciliation process. In addition, legal counsel reviewed all supply NAESB contracts and transaction confirmations and force majeure notices that were issued to confirm that individual invoice amounts matched the governing contract and any supplemental terms. Based upon that review, KGS is disputing a billing amount of $14,940,072.89 with MacQuarie Energy related to the reduction in gas supply KGS received from FOM Baseload and Gas Daily callable and the supplier's requested pricing adjustments.[44]

29. KGS also continues to evaluate its actions and experiences during the Winter Event. Preliminarily, KGS is reviewing its decision-making processes for imposing operation flow orders and periods of curtailment. Such decisions are based on operational integrity but given the infrequent need for these decisions, it became apparent that clear internal guidelines would assist in making and communicating decisions internally amid a crisis. Additional training exercises based on an extreme weather event may also be implemented. The Company is also in the process of evaluating options for providing additional physical and financial hedging and ascertaining the costs associated with such options. Tariff provisions are also being reviewed to determine if additional clarity is needed or if

[43]Robbins Testimony, page 23, lines 1-17.

[44]Robbins Testimony, page 24, lines 3-6.

changes should be made to improve the Company's ability to respond to extreme weather events.[45]

D. EXTRAORDINARY GAS COSTS DEFERRED TO THE REGULATORY ASSET

30. KGS has deferred approximately $373 million in gas supply related costs. Invoices and other documentation of these costs are included in Mr. Robbins Confidential Exhibit MR-3.[46]

## IV. KGS'S OPERATION OF ITS NATURAL GAS SYSTEM DURING THE WINTER EVENT

31. As set forth in Mr. Postlethwait's Direct Testimony, the Field Operations management team, including its Directors and Managers began participating in Company-wide calls on February 10, 2021. The calls were conducted twice daily from February 10 through February 21, 2021, which attendance eventually expanded to include Operations, Engineering, Gas Supply, and Commercial departments. The goal of these meetings was to establish a plan for the day, with priorities and expectations established to support the continuation of safe operations and service. Given the unprecedented circumstances prompted by the Winter Event, even with these daily "plans" established, the Company was constantly adjusting the daily plans to respond to changing circumstances as they occurred. Throughout the duration of the storm, Mr. Postlethwait, Vice President of Operations for KGS, remained in near-constant contact with Pressure and Measurement employees and Gas Control employees while those departments continually observed supervisory control and data acquisition ("SCADA") information to monitor system pressures and operations. In addition, field technicians were deployed to locations throughout Kansas to physically address potential system constraints identified through past winter experiences. Daily calls between KGS and ONE Gas management were also being held daily to allow for the quick organization and deployment of field technicians to research and address system issues. Additionally, KGS representatives also participated in frequent

[45] Robbins Testimony, page 26, line 2 through page 27, line 2.

[46] Robbins Testimony, page 24, line 15; Confidential Exhibit MR-3.

calls with other industry professionals to share best practices. Just prior to its onset and as the storm progressed, KGS established and remained in regular communication with the Commission's Staff to be available to answer any questions or concerns and to provide routine updates as may be needed. KGS also relied on its Emergency Response Plan and the ONE Gas Crisis Management Plan to guide its actions during the Winter Event. Some of the unique circumstances caused by the Winter Event are detailed later in Mr. Postlethwait's testimony.[47]

32. The main objective of the Company's Crisis Management Plan is to provide a guide for the preparation and management of a crisis, to define roles and responsibilities before a potential crisis occurs, to develop, ensure administration of the process and plan, and to provide a framework for the Company's response during and after a crisis. This plan aids in the execution of a response to a crisis, with a focus on safety, protecting the public and the protecting the environment. Likewise, the main goal of the ONE Gas Emergency Response Plan is to provide guidance for all ONE Gas operating divisions, including KGS, for a variety of emergency situations including planning objectives, response objectives, response mobilization and demobilization, and to establish communication and documentation requirements. These plans are attached to Mr. Postlethwait's testimony as Confidential Exhibit SCP-1.[48]

33. During the Winter Event, KGS's Operations Department was responsible for maintaining the integrity of the distribution system and ensuring gas was available for human needs customers, while also minimizing service interruptions for all customers. Specifically, Operations: proactively addressed potential constraints to the KGS distribution system through adjustment of set points to meet anticipated demand, valve locates, and strategically placed compressed natural gas

[47]Postlethwait Testimony, page 6, line 10 through page 7, line 9.

[48]Postlethwait Testimony, page 7, lines 12-20; Confidential Exhibit SCP-1.

("CNG"); installed supplemental feeds; along with Engineering, Gas Supply, Gas Control, Pressure and Measurement Departments continuously monitored the weather forecast prior to and during the winter storm to anticipate constraints to the KGS distribution system; and participated in curtailment discussions with Commercial, Engineering, and Gas Supply.[49]

34. KGS operates and maintains a natural gas distribution system that serves residential, commercial, industrial and other customers in several regions within the state of Kansas. KGS purchases natural gas from upstream pipeline suppliers and receives that purchased gas through 345 delivery points. Once the natural gas enters the KGS distribution system, KGS controls gas pressures with regulator stations which enable the Company to increase or decrease the pressures as needed, to safely deliver natural gas to customers. KGS also relies on storage gas, which allows KGS to purchase and store natural gas during non-winter months, for use during colder months.[50]

35. The Winter Event impacted gas pressures and volumes in the distribution system due to a combination of weather, high customer demand for natural gas, and the challenges suppliers faced with producing and delivering natural gas to KGS due to the extreme cold. Specifically, the Winter Event's sustained arctic temperatures and wintery precipitation caused some areas of the system to reach low pressures. In some cases, these areas approached such a low pressure that service to customers was in danger of being compromised or lost entirely. KGS responded through additional monitoring of those parts of the system. One system outage affecting 82 customers was experienced in Topeka on February 15, 2021. Upon investigation, it was determined a high end-use commercial customer in the area of the outage unexpectedly increased its load. This increased load resulted in a drop in pressure on the system. All customers were returned to service later the same day. KGS also

[49]Postlethwait Testimony, page 8, lines 10-21.

[50]Postlethwait Testimony, page 9, lines 6-13.

had to purchase additional natural gas to meet customer demand and maintain pressures on the system.[51]

36. As explained by Mr. Postlethwait, if any portion of KGS's distribution system reaches a pressure reading where the natural gas furnaces and other appliance(s) cannot safely operate, the Company must shut-off gas to customers served from that portion of the distribution system. This must be done at each individual meter serving a customer. To restore pressures, KGS must purge the system to push all air out of the system, which is a time-consuming process. KGS must next reintroduce gas into the system. Once pressure is restored in those areas of the distribution system, field technicians must restore service to each individual customer impacted by the outage. This is a slow, time-consuming process that can take weeks depending on the number of customers affected by the outages. Unlike electric service, KGS cannot simply "flip a switch" to restore gas service. On average, assuming the customer is home when a KGS technician arrives, it takes approximately 20 minutes to restore a customer's gas service because the customer must give the Company access to the property. This is one of the reasons KGS worked so hard to maintain service during the Winter Event.[52]

37. In addition to the monitoring conducted by field personnel, Operations and the Gas Control department regularly tracked all weather activity that could affect the Company's service territory. The Company subscribes to DTN weather data and utilizes various other weather sources including The Weather Channel, AccuWeather, and Wunderground to monitor the forecast temperatures ahead of the storm. As the Winter Event approached and the Company became aware that extreme cold weather would be moving into Kansas and impacting the KGS service territory, the

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[51]Postlethwait Testimony, page 10, lines 12-22.

[52]Postlethwait Testimony, page 11, lines 4-18.

Company began making operational preparations.[53]

38. Operations began preparing for the Winter Event once the forecast indicated severe weather was approaching, days in advance of its arrival. Operations was particularly focused on maintaining system pressures and overall integrity to continue service to residential and other human needs customers. As mentioned previously, the KGS Field Operations management team including Directors and Managers began meeting on February 10, 2021. Calls were conducted twice daily through February 21, 2021, and expanded to include Operations, Engineering, Gas Supply, and Commercial departments. At the meetings, a plan for the day was established, with priorities and expectations. Prior to the storm hitting, Field Operations established that all qualified responders were to be in standby status and ready to respond across all potentially affected areas. There was early and frequent communication between Field Operations and Fleet Operations to determine the availability of necessary resources such as fuel and cold weather additives for both vehicles and equipment. Notification was provided to park equipment inside of facilities where possible. Additionally, the CNG cascade trailers were inspected and verified to be at capacity for rapid mobilization if it became necessary. System pressures were monitored, and the Maximum Allowable Operating Pressure ("MAOP") system set points were verified and adjusted as necessary. The solar powered system monitoring stations ("UCOS") were inspected, and batteries were replaced in anticipation of overcast conditions for an extended period. Local area management was instructed to monitor locate ticket activity in areas of high consequence on the KGS system to limit the potential for abnormal operating conditions due to excavation damage. Existing temporary regulator stations were inspected and verified ready to be placed in-service in low pressure to intermediate pressure systems. Finally, a bridge call number was established and distributed in all areas for Field Operations to utilize for quick

[53]Postlethwait Testimony, page 11, line 22 through page 12, line 4.

access in emergency situations.[54]

39. As explained by Mr. Postlethwait, the priorities for Operations were minimizing customer outages and maintaining system integrity while keeping field personnel safe. To meet these priorities, Operations analyzed system data and worked closely with other KGS and ONE Gas departments. Operations also prioritized emergency calls because KGS could not respond immediately to every system issue based on the number of calls, treacherous driving conditions and impassible roads. Regarding safety of field personnel and maintaining adequate resources, decisions were made utilizing the Emergency Response Plan, Crisis Management Plan, road and driving conditions, and prioritization of emergency orders. During the more intense portions of the storm, technicians were consolidated and dispatched together so no technician was working alone. The supply of personal protective equipment was closely monitored to ensure the health and safety of our employees. Communication with field personnel and customers was also necessary for Operations to meet these priorities. Managers and supervisors continually followed up with field personnel to check on their mental and physical well-being.[55]

40. The Company communicated with customers using its Customer Service Representatives ("CSRs") who maintained regular contact with customers who called in emergencies to see if any conditions changed that would affect KGS's operational priorities. The CSRs also rescheduled non-emergency orders until all emergency orders could be addressed.[56]

41. Mr. Postlethwait testifies as to KGS's decision to curtail services during the Winter Event. On February 15, 2021, KGS issued an Emergency Natural Gas Period of Curtailment to

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[54]Postlethwait Testimony, page 12, line 8 through page 13, line 8.

[55]Postlethwait Testimony, page 13, line 12 through page 14, line 2.

[56]Postlethwait Testimony, page 14, lines 4-7.

marketers and individually balanced transportation customers and non-residential gas sales customers. KGS called the largest commercial customers to ask for curtailment of use to a level to maintain the integrity of a particular facility. Curtailment contributed to the maintenance of system pressures and the overall integrity of the system. Ultimately, this ensured continued supply to human needs customers as required by the Company's tariffs and regulations for priority of service during a State of Emergency.[57] KGS also requested customers to help reduce demand on the system during the Winter Event through conservation. Starting on February 13, 2021, the Company sent conservation messages to customers through social media, local news outlets and direct emails. KGS explained energy-savings tips for customers including turning down the temperature on furnaces or heaters, staying warm inside rather than hot, sealing leaks around doors and windows, reducing the temperature on water heaters, closing curtains and blinds, postponing chores, changing and/or cleaning filters on heaters and furnaces, and installing foam gaskets on electrical switches and outlets. KGS sent conservation reminders throughout the winter storm.[58] Examples of the types of messages that KGS provided to its customers during the Winter Event are attached to Mr. Postlethwait's testimony as Exhibit SCP-3.[59]

42. As indicated by Mr. Postlethwait in his Direct Testimony, considering the unprecedented weather conditions and other issues outside the Company's control, KGS's distribution system performed very well. KGS maintained service to 99.9% of its residential customers throughout the state. As indicated previously, the small outage that occurred during the Winter Event and affected 82 residential customers in Topeka due to a high volume commercial customer in the area of the

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[57]Postlethwait Testimony, page 14, lines 9-16.

[58]Postlethwait Testimony, page 14 line 19 through page 15, line 5.

[59]Postlethwait Testimony, page 15, line 6; Exhibit SCP-3.

outage unexpectedly increasing its gas usage resulting in a drop in pressure on the system. KGS experienced some additional system constraints during the Winter Event. However, due to the Company's planning and deployment of available resources, no customers lost service in many of the areas on the system that showed low pressures or other issues during the worst weather conditions in the storm. Prior to Winter Storm Uri, Operations worked with Engineering to identify sections of the distribution system that required reinforcement projects due to low operating pressures and gas volumes. These actions included: increasing operating pressures to the MAOP; proactive valve location prior to the storm; deployment of CNG supplies; and the deployment of field technicians who patrolled the system to identify third-party contractors working near KGS facilities. These proactive actions prevented interruptions to residential gas service and maintained system integrity.[60]

43. KGS incurred extraordinary costs of $224,790 related to operations as a result of the Winter Event. These are identified by Mr. Postlethwait in his direct testimony[61] as follows:

| | |
|---|---|
| Corporate Miscellaneous | $2,132 |
| Labor Overtime | $176,521 |
| Misc Supplies and Expenses | $18,358 |
| Contractor | $2,699 |
| Tools | $926 |
| Travel | $525 |
| Maintenance/Parts | $281 |
| Consultant | $3,456 |
| Union Meals/Payroll | $495 |
| Meals | $254 |
| Direct Materials Purchase | $8,857 |
| KGS Indirect | $10,492 |

[60]Postlethwait Testimony, page 15, line 22 through page 16, line 16.

[61]Postlethwait Testimony, page 16, line 19.

44. From an operations standpoint, the Winter Event validated the importance of the KGS winter preparedness protocols and a thorough Gas Supply Plan. As indicated by Mr. Postlethwait, the following will help prepare for the next extreme weather event:

- Effective and early communication with electric providers (small and large) is critical;

- Early contacts with water providers resulted in numerous contacts around the state allowing for on location standby during excavation activity and accuracy of locates;

- Monitoring of locate activity in high consequence areas provided effective communication with excavators; and

- Modeling of KGS areas by Engineering to review areas of concern to determine system integrity needs.

KGS's employees worked tirelessly to ensure safe and reliable delivery of gas to the residential customers who rely on the Company to heat their homes and cook their food. KGS is pleased with how well its system responded to the storm, and very proud of all the KGS and ONE Gas employees who worked continuously through very challenging conditions to make sure the Company was able to continue to serve customers during this natural disaster.[62]

## V. TREASURY DECISIONS DURING THE WINTER EVENT

45. Prior to The Winter Event, ONE Gas was a highly rated company with sufficient liquidity to meet its ongoing operations and capital spending plan with only periodic needs for the issuance of long-term debt or equity. ONE Gas had a debt rating of "A, stable" from S&P and a rating of "A2, stable" from Moody's. At December 31, 2020, ONE Gas had a capital structure made up of \$2.2 billion in equity and \$1.6 billion in long-term debt. The combination of long-term debt with these credit ratings and revolving credit facilities, was sufficient to allow ONE Gas to finance its

[62] Postlethwait Testimony, page 17, line 5 through page 18, line 6.

ongoing operations and capital spending plan for the coming years.[63]

46. As explained by Mr. Smith in his Direct Testimony, ONE Gas's Treasury Department makes financing decisions at a ONE Gas level on behalf of all three of the company's divisions: Kansas Gas Service, Texas Gas Service Company and Oklahoma Natural Gas. The winter weather affected all three states in which ONE Gas' divisions operate, and Treasury was tasked with addressing three primary issues, all of which related to cash liquidity needs. The first issue was taking necessary steps to provide adequate assurance to ONE Gas' creditors (gas suppliers in this situation). ONE Gas needed to provide information to demonstrate that KGS would be able to pay for the gas it was purchasing so it could continue to provide service to customers. The second issue was to borrow enough cash to ensure KGS could pay for the gas that had been purchased on customers' behalf. The third issue was to ensure that ONE Gas and its divisions were in a position to continue to operate in the same manner as prior to this event.[64]

47. Mr. Smith explains the terms "liquidity" and "adequate assurance" in his testimony and how those terms played a critical role during the Winter Event. Mr. Smith explains that "liquidity" means the available cash and borrowing capacity in place for a company. "Adequate assurance" is a term used in the base contract for sale and purchase of natural gas, which is based on a standard established by the NAESB. Mr. Smith's Exhibit MWS-1 shows the standard language used in section 10 of a NAESB contract related to Financial Responsibility. When there are reasonable grounds to assert that the purchaser of the natural gas supplies may be unable to pay for the natural gas, the seller may request the purchaser to provide what is referred to as "adequate assurance" that it will be able to pay seller for the natural gas supplies. In an NAESB contract, adequate assurance can be given in

[63]Direct Testimony of Mark W. Smith ("Smith Testimony"), page 5, lines 1-8.

[64]Smith Testimony, page 5, lines 13-23.

several forms including (1) a company's debt rating, which is a proxy for the probability of bankruptcy, (2) an early cash payment (prepayment), (3) an irrevocable letter of credit, (4) a corporate guarantee of a subsidiary by its parent, or (5) security interest in an asset. In essence, these items help guarantee that the supplier will be paid timely.[65]

48. Mr. Smith testifies that there was a point in time during the Winter Event when ONE Gas realized that it might not be able to finance gas purchases through its typical means. On Thursday, February 11, 2021, KGS's Gas Supply department began to see natural gas prices spike as its Operations department was preparing for the severe and what turned out to be a sustained winter storm, affecting all three states in which ONE Gas operates. ONE Gas was faced with a number of gas supply issues: high customer demand; the inability of gas suppliers to deliver gas; and spiking commodity prices. The significant increase in the price for the daily purchases on Friday, February 12, coincided with the holiday weekend, which required the Company to procure gas on that Friday for a four-day period (Saturday, Sunday, Monday, and Tuesday), because Monday, February 15, was Presidents' Day and the financial markets and banks were closed in observance of the national holiday. ONE Gas faced a liquidity problem due to the unprecedented increase in the natural gas commodity costs and high customer demand caused by the Winter Event. ONE Gas needed to access additional cash, or liquidity, to provide adequate assurance and pay for gas purchases when those payments were due (generally on or around March 25, 2021) to have enough supply to serve its customers. If ONE Gas or KGS could not have provided adequate assurance, suppliers would have refused to sell natural gas to the Company and KGS would have been without sufficient gas supplies for its customers. Soon after the settlement prices were fixed for the commodity purchases made on Friday, February 12, ONE Gas determined it did not have enough liquidity to pay for the gas costs associated with The Winter

[65] Smith Testimony, page 6, lines 1-15.

Event.[66]

49. As further explained by Mr. Smith, it quickly became apparent that all gas utilities operating within the same footprint as ONE Gas, including Kansas, faced an unprecedented increase in natural gas prices during the Winter Event. For example, during the storm on Friday, February 19, Atmos Energy Corporation filed an 8-K with the Securities and Exchange Commission stating that its gas purchases would range between $2.5 billion to $3.5 billion. This disclosure gave investors, suppliers and other stakeholders an indication that other utilities in the same footprint could be facing natural gas procurement costs of a similar magnitude. Further, on Thursday, February 18, 2021, the cost of gas peaked in Oklahoma at a price of $1,250/dth and in Texas for the Houston Ship Channel on Wednesday, February 17, 2021, at $400/dth. Considering these circumstances, suppliers became concerned and sought adequate assurance.[67]

50. ONE Gas' legal team, treasury team, senior management, Board of Directors and its banks worked throughout the President's Day weekend to arrange financing, which included consultations with legal and financial experts and the Company's external auditor. Bank of America N.A.'s credit committee approved a term loan on Sunday night, February 21, 2021, and ONE Gas held a board meeting on Monday morning before the market opened to approve the term loan. More specifically, ONE Gas entered into a credit agreement ("Term Loan Credit Agreement") with Bank of America, which provided for a $2.5 billion unsecured term loan facility. At that time, ONE Gas did not know when the pricing related to the winter weather event was going to end, or what ONE Gas' specific final financial needs would be related to potential penalties and other costs related to the Winter Event. Securing this type of loan was critical to show that ONE Gas and its divisions had

[66] Smith Testimony, page 6, line 19 through page 7, line 14.

[67] Smith Testimony, page 8, lines 12-22.

financial means to pay for the gas it was purchasing and to show the rating agencies that ONE Gas had successfully financed these costs related to the Winter Event.[68]

51. Prior to the market opening on Monday, February 22, 2021, the ONE Gas Board approved the loan. ONE Gas then issued an 8-K stating that its gas costs could be as high as $2.2 billion and that it had secured a term loan in the amount of $2.5 billion to pay for the anticipated gas supply costs and other extraordinary costs associated with the storm. A copy of ONE Gas' 8-K issued in February 2021 is attached to Mr. Smith's testimony as Exhibit MWS-2. Subsequently, ONE Gas immediately began exploring ways to reduce the cost of financing these extraordinary gas purchase costs and determined the best solution was to refinance with an issuance of a combination of two- and three-year public unsecured senior notes.[69]

52. Term loans are typically used as bridge financing for acquisitions and for very short-term liquidity needs. These loans typically contain mechanisms that cause the cost to increase over time to encourage the issuer to replace them with more permanent financing. The Term Loan Credit Agreement had a maturity of two years after the loan was funded and carried interest at a "Eurodollar Rate" or a "Base Rate" plus a margin specified in the agreement that adjusted based on ONE Gas' debt ratings and the outstanding remaining loan's balance. The interest rate on the loan also increased each quarter and had a mechanism that required additional payments on any amounts outstanding over $1.0 billion. The terms of the loan were reasonable considering ONE Gas' financial needs and available loan options. In addition, ONE Gas was required to pay financing costs, which included bank fees, underwriters' fees, attorney's fees, printer's fees, and rating agency fees. The total costs associated with

[68]Smith Testimony, page 9, line 14 through page 10, line 3.

[69]Smith Testimony, page 10, lines 4-12.

the term loan are shown in Mr. Smith's Exhibit MWS-3.[70]

53. After determining ONE Gas needed additional liquidity to purchase gas during the storm, ONE Gas was limited to two ways to finance at a reasonable cost the extraordinary gas costs it expected its divisions to incur and to provide adequate assurance. The first option was a private loan, and the second option was a term loan. Securing a term loan that allowed ONE Gas other financing options prior to drawing on the term loan was deemed the most efficient and cost-effective way to obtain access to the level of cash ONE Gas needed to meet its obligations.

54. On March 11, 2021, ONE Gas issued $1.0 billion of 0.85 percent senior notes due in 2023, $700 million of 1.10 percent senior notes due in 2024, and $800 million of floating-rate senior notes due in 2023. The floating-rate senior notes bear interest at a rate equal to three-month London Interbank Offered Rate ("LIBOR") plus 61 basis points per year, which is reset quarterly for the applicable interest period (0.79% on March 31, 2021). The terms of the replacement financing are reasonable given the options available in the market and the desire to replace the original loan with lower-cost financing. The net proceeds from the issuance are to be used for payment of gas purchase costs and other liquidity issues resulting from the Winter Event. These costs included the financing costs, which included bank fees, underwriters' fees, attorney's fees, printer's fees, and rating agency fees. The cost to issue these notes are also detailed in Mr. Smith's Exhibit MWS-3.[71]

55. Once the term loan was in place, ONE Gas was able to provide adequate assurance and issue its 10-K, and the rating agencies had revised their ratings of ONE Gas' debt making it both reasonable and possible for ONE Gas to pursue a more cost-efficient way to finance the extraordinary costs related to the winter weather event. ONE Gas considered several options and was aware that

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[70]Smith Testimony, page 10, line 15 through page 11, line 4; Exhibit MWS-3.

[71]Smith Testimony, page 11, lines 7-16; Exhibit MWS-3.

all three states in which ONE Gas operates were considering securitization legislation. Even though the period over which the extraordinary costs would be recovered was unknown, based on the possibility of securitization legislation, or other forms of cost recovery, ONE Gas believed these costs were going to be refinanced again in two to three years, therefore, it was determined that two- and three-year public notes that are callable at par after six months would be the best option to refinance the $2.5 billion term loan until securitization could be formally requested. In the interim, callable notes allow ONE Gas the flexibility to refinance the borrowings after six months without paying a penalty for retiring the debt early. Thus, the debt can be called and replaced with permanent financing that aligns with the period over which the costs will ultimately be recovered.[72]

56. ONE Gas needed additional liquidity to make gas purchases during the storm, and those purchases were necessary to continue to provide service to customers. The initial Term Loan Credit Agreement was a reasonable way to obtain that necessary liquidity. The replacement financing was also a reasonable decision that results in lower costs going forward. Mr. Smith's Exhibit MWS-4 shows the cost savings generated by the issuance of the two- and three-year notes and terminating the Term Loan Credit Agreement.[73] ONE Gas' need to obtain financing to pay for gas purchases aligned with the understanding of the relevant facts that existed at the time related to extraordinarily high market prices for natural gas and other costs that would not have been incurred if the Winter Event had not happened.[74] Further, the Commission recognized these conditions, including the cost impact on customers, in its Emergency Order authorizing the creation of the Regulatory Asset that KGS seeks to recover in this case.[75] The loans ONE Gas obtained allowed KGS to do just that to make necessary

[72]Smith Testimony, page 12, line 11 through page 13, line 3.

[73]Smith Testimony, page 13, lines 7-12; Exhibit MWS-4.

[74]Smith Testimony, page 13, lines 13-15.

[75]*See* Footnote 4.

gas purchases to continue to provide service to its customers during the severe weather conditions.[76]

57. If ONE Gas would not have obtained the loans it did during the Winter Event, gas suppliers would have likely required ONE Gas to provide adequate assurance under their contracts, which could have resulted in cash margin payments. Cash margin payments are prepayments to assure the supplier that the gas will be paid for, and the supplier would be held harmless should the company not be able to pay. Based on the estimated amount of gas purchases up to $2.5 billion, ONE Gas did not have enough cash or borrowing capacity to meet these payments and continue normal operations. That meant that without the Term Loan Credit Agreement, KGS would not have been able to obtain and purchase the gas it needed to serve customers.[77]

58. Once payments and the actual deliveries are reconciled, nearly $373 million (prior to carrying costs) of the total $2.5 billion was attributable to KGS for gas purchases and other extraordinary costs related to the storm. These extraordinary expenses were necessary to maintain service to customers in Kansas. With carrying costs, the total extraordinary gas procurement costs are expected to total approximately $451.1 million on January 31, 2023.[78]

59. Each ONE Gas division was allocated a portion of the financing costs based on its portion of the total gas costs incurred by all three divisions during the storm. KGS's portion of the gas costs is approximately 19.2%, which equates to $6.9 million in financing costs. Mr. Smith's Exhibit MWS-3 provides the calculation of this amount.[79] The $6.9 million in financing costs incurred for both loans are reasonable and necessary "extraordinary costs" that would not have been incurred but for the Winter Event. Financing fees are a typical cost of issuing debt and are properly recovered

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[76]Smith Testimony, page 13, lines 18-20.

[77]Smith Testimony, page 14, lines 1-8.

[78]Smith Testimony, page 14, lines 11-17.

[79]Smith Testimony, page 15, lines 15-18; Exhibit MWS-3.

through the Regulatory Asset.[80]

60. As of the end of June 2021, carrying cost of $10.1 million have been included in KGS's Regulatory Asset. Using the timeline set out by the new provisions in the Act related to securitization, KGS has also included the estimated carrying cost of $70.3 million (through January 31, 2023) in the Regulatory Asset. Mr. Smith's Exhibit MWS-5 shows the development of these costs. KGS used carrying charge approved for the Company's Gas System Reliability Surcharge filings approved in KGS's last rate case.[81]

61. The Emergency Order authorizes a gas utility to include carrying costs in the regulatory asset determination it requests the Commission to make. Carrying costs are also identified as a type of extraordinary gas procurement cost in the Commission's Emergency Order. In addition, these carrying costs reflect actual costs ONE Gas incurred and continues to incur to obtain the financing that enabled KGS to make required gas purchases during the winter storm, and it is reasonable for KGS to be compensated for the length of time it will carry this deferred balance of extraordinary costs on its books.[82]

62. Given the geographic scale, intensity and duration of this weather event, ONE Gas had never faced a liquidity crisis like the one it faced in February 2021 due to the winter storm. Mr. Smith testifies that in his 19 years in Treasury, he had never seen circumstances that impacted liquidity this significantly. To put the situation in perspective, ONE Gas issued more debt on March 11, 2021, ($2.5 billion) than it had outstanding in long-term debt at the time of the storm ($1.6 billion). Similarly, no event specific to Kansas comes close to approximating the circumstances KGS dealt with to maintain

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[80] Smith Testimony, page 15, line 21 through page 16, line 3.

[81] Smith Testimony, page 16, line 18 through page 17, line 6.

[82] Smith Testimony, page 17, lines 14-20.

safe and reliable service to residential and other human needs customers.[83]

## VI. ENVERNUS' REVIEW OF MARKETS DURING WINTER EVENT AND HOW KGS RESPONDED TO THOSE MARKETS

63. The Company engaged Enverus, Inc. (Enverus) to analyze the natural gas market supply dynamics during the Winter Event and the resulting impacts on KGS. Ms. Bernadette Johnson, Senior Vice President, Power and Renewables for Enverus, provides testimony, including a power point presentation, that provides an extensive review of the natural gas market conditions that existed during the Winter Event. She also provides her expert analysis and assessment of the suitability of KGS's gas supply planning and execution and evaluates whether the KGS Gas Supply Plan is consistent with best industry practices.

## VII. KGS'S PLAN TO MINIMIZE THE FINANCIAL EFFECTS OF THE 2021 WINTER EVENT

### A. DETERMINATION OF QUALIFIED EXTRAORDINARY COSTS TO BE INCLUDED IN KGS'S PLAN

64. KGS is relying on the definition provided in the Act to distinguish the extraordinary costs from the routine costs experienced by the Company as a result of the Winter Event. The Act refers to these costs as "Qualified Extraordinary Costs."[84] The Act defines "qualified extraordinary costs" as including:

> . . . costs the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events.[85]

KGS is also relying upon the language included in the Commission's Emergency Order that defined

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[83]Smith Testimony, page 16, lines 7-14.

[84]Act, New Section 1(b)(18).

[85]*Id*.

possible extraordinary costs to be deferred and recovered under a utility's financial plan. The Commission identified possible extraordinary costs to be deferred as including, but:

> . . . not limited to the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies, and any other reasonable costs necessary to ensure stability and reliability of natural gas and electric service. These deferred costs may also include carrying costs at the utility's weighted average cost of capital.[86]

As shown by the testimony and exhibits filed in support of the Plan, KGS incurred costs as a result of the Winter Event that meet the definition of Qualified Extraordinary Costs and should be included in the costs to be recovered under KGS's Plan. Without the Commission's approval to defer the extraordinary costs, KGS would have had to bill customers for the additional gas costs incurred through its COGR. This would have led to significant bill increases for KGS customers. The Commission's order allowing for these costs to be deferred will permit KGS to spread the recovery of costs over a longer period of time and mitigate the impact on customer bills.[87]

65. As indicated in the testimony of Mr. Postlethwait, Mr. Dykes and Mr. Smith, KGS incurred extraordinary costs in its efforts to maintain natural gas service to its customers during the Winter Event. Their testimony supports the reasonableness of KGS actions and resulting costs. Ms. Buchanan supports the reasonableness of the legal and consulting fees incurred by the Company relating to the Winter Event in her testimony. The total cost incurred and deferred into a regulatory asset account as of June 30, 2021, is approximately $390 million. Additionally, Ms. Buchanan has included an estimate of the additional costs KGS will incur prior to issuing bonds, if securitization is approved. The table below from her direct testimony summarizes the costs by category.[88]

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[86]Emergency Order, page 2, paragraph 4.

[87]Direct Testimony of Janet Buchanan ("Buchanan Testimony"), page 7, lines 7-11.

[88]Buchanan Testimony, page 7, line 15 through page 8, line 10.

| | |
|---|---|
| Extraordinary Gas Costs | $358,086,242 |
| Disputed Gas Invoices | $14,940,073 |
| Total Extraordinary Gas Costs Deferred | $373,026,315 |
| Carrying Costs | $10,141,598 |
| Financing Fees | $6,918,643 |
| Extraordinary O&M | $224,790 |
| Legal/Consulting | $94,944 |
| **Total Extraordinary Costs Deferred** | **$390,406,289** |
| Estimated Additional KGS Legal/Consulting Fees | $783,000 |
| Estimated KCC Consulting Fees | $250,000 |
| Estimated Customer Education Costs | $100,000 |
| Estimated Additional Carrying Costs Until Bond Issuance (Exhibit MWS-5) | $60,118,598 |
| Estimated Tax Impact | $0 |
| **Total Estimated Costs to be Securitized** | **$451,657,888** |

66. With respect to the extraordinary gas costs, KGS determined that deferring the extraordinary cost associated with the volume of gas obtained from the spot market and from Gas Daily Callables for natural gas provided between the dates of February 11, 2021, and February 19, 2021, was reasonable and would protect customers from bearing the immediate impact on paying for the high commodity prices incurred during the Winter Event. In determining the value of the extraordinary portion of the gas cost, it was necessary for KGS to first calculate the "normal" cost for the purchased volumes. To arrive at a "normal" cost of gas for these volumes, KGS utilized the average of the first of the month index prices for Southern Star Central Gas Pipelines (Texas, Oklahoma, Kansas), Panhandle Eastern Pipeline Company (Texas, Oklahoma), ANR Pipeline Company (Oklahoma), and Natural Gas Pipeline Company of America (Midcontinent) as a

representation of a normal price. This average first of month price for February 2021 was $2.5725 per MMBtu. The Company then multiplied the volumes of gas associated with the spot market and Gas Daily Callables purchases during the Winter Event by this average price to determine the "normal" cost. The difference between the actual purchase cost and this "normal" cost was then deferred to the regulatory asset as extraordinary cost. Next, the Company identified and included the 'other gas related costs' affected by high market pricing or caused solely by the Winter Event. Those costs included: cash-outs, and disputed gas purchase invoice amounts. However, the extraordinary gas costs included in the regulatory asset do not include any baseload or storage costs nor do they include any financing or carrying costs. The financing and carrying costs included in the regulatory asset are discussed in Mr. Smith's Direct Testimony. KGS billed customers for the "normal" portion of the gas costs associated with the Winter Event in the COGR amount billed in April 2021. It has not billed customers for the extraordinary gas costs incurred during the Winter Event.[89]

67. As explained by Ms. Buchanan in her Direct Testimony, KGS expects to incur additional costs in implementing its proposal to securitize the extraordinary costs. KGS anticipates that legal fees, consulting fees and carrying costs will continue to be incurred by the Company. Additionally, the Act allows for the inclusion of the costs incurred by the Commission to perform its responsibilities in issuing a Financing Order and to observe the steps taken by the Company to place the securitized utility tariff bonds to market. Even with these additional costs, securitization results in minimizing the financial effect of the Winter Event for customers when compared to traditional methods of recovery. If the Commission does not approve of KGS's proposed plan, legal fees, carrying costs and consulting fees will be incurred until the Commission approved method of recovery is implemented and costs are recovered. An estimate of the costs that will be incurred prior to

[89]Buchanan Testimony, page 10, line 3 through page 11, line 2.

issuance of bonds is provided in the Table shown in paragraph 64 of this filing.[90]

68. As also explained by Ms. Buchanan, there may be reductions to the extraordinary costs identified in the Table shown in paragraph 64 of this filing. It is possible that KGS will be able to recover a portion of the extraordinary costs through other means. The Company is disputing approximately $15 million in gas costs charged to KGS by Macquarie. Additionally, as the Commission is aware, KGS has filed a motion for a limited waiver of the penalty provisions contained in its General Terms and Conditions for Gas Service.[91] As indicated in that motion, KGS intends to credit all penalty amounts it collects against the extraordinary gas costs incurred during the Winter Event. Finally, any subsequent federal or state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc., recovered or received by KGS after the Securitized Utility Tariff Bonds have been issued would be credited back to customers.[92]

As indicated above, KGS will request a Financing Order from the Commission in a separate docket. The Act contemplates that not all costs or offsets to extraordinary costs to be securitized will be known at the time a utility requests a Financing Order or at the time the bonds are issued. Thus, the utility must make a reasonable estimate of the qualified costs to be included. The Act provides for a later reconciliation of actual costs incurred to those that are included in the securitized financing mechanism. KGS will utilize this provision to address the recovery of any penalty dollars and the payment of the of the disputed invoices as well as any costs associated with invoices received after the bonds are issued (i.e., legal invoices and securitization consulting invoices based on hourly fees that will not be finalized until after the bonds are issued), and as well as, any subsequent federal or

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[90]Buchanan Testimony, page 11, lines 8-19.

[91]Buchanan Testimony, page 12, lines 1-6; Motion for a Limited Waiver of the Penalty Provisions filed May 28, 2021, Docket No. 21-KGSG-332-GIG.

[92]Buchanan Testimony, page 12, lines 5-6.

state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc.[93]

B. PLAN TO MITIGATE FINANCIAL EFFECT TO CUSTOMERS BY SEEKING A FINANCIAL ODER UNDER THE ACT

69. As explained by Ms. Buchanan in her Direct Testimony, the Company seeks approval in this docket to apply for in a separate docket a Financing Order from the Commission pursuant to the Act to issue Securitized Utility Tariff Bonds to finance all the extraordinary costs and additional financing costs and to recover those costs through a Securitized Utility Tariff Charge as defined in the Act. Commission approval of the Financing Order will allow KGS to mitigate the costs customers would otherwise pay (under traditional ratemaking recovery methods) for service the Company provided during the Winter Event. The new statutory provision accomplishes this purpose through securitization financing. Securitization financing will allow the Company to extend the time-period over which customers can pay for the extraordinary costs while also supporting the financial strength and stability of the Company. Mr. Smith provides background information about securitization in his testimony.[94]

70. If the Commission allows KGS to apply in a separate docket for a Financing Order under the Act and if that Financing Order is approved by this Commission, it is KGS's intent to recover the regulatory asset balance presented and determined in this case, along with estimates for costs that will be incurred until bonds are issued, through the Securitized Utility Tariff Charge. In addition, the Act provides for a reconciliation of the final actual costs incurred with the securitized amount, with any difference in the amount to be addressed through traditional ratemaking.[95]

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[93]Buchanan Testimony, page 12, lines 9-18.

[94]Buchanan Testimony, page 13, lines 3-11.

[95]Buchanan Testimony, page 13, lines 15-20; Act, new Section 2(e)(13).

71. As quantified in the exhibits sponsored by Mr. Smith in his testimony filed in support of the Plan, a comparison of the net present value of the costs to customers that are estimated to result from securitization and those costs that would otherwise result from traditional ratemaking, shows recovery of KGS's extraordinary costs resulting from the Winter Event through a Securitized Utility Tariff Charge and the issuance of Securitized Utility Tariff Bonds provide significant cost savings and benefits for customers.[96]

72. As of July 30, 2021, KGS estimates that the total amount of extraordinary costs to be securitized is approximately, $452 million. If the Commission approves KGS's proposed plan, then when KGS applies for a Financing Order, this amount will be updated to reflect any additional costs incurred and an estimate of costs to be incurred until bonds are issued and proceeds are received.[97]

## C. <u>Cost Recovery Details</u>

### 1. **Cost Allocation, Rate Design, Recovery Period**

73. Because the extraordinary costs are primarily associated with gas costs, KGS proposes to allocate to customer classes based on each customer classes' percentage of the total estimated February sales volumes. Because KGS bills in cycles, some of the February sales are reflected in billing data for February and some are reflected in billing data for March. To account for this result, KGS is using an average of the sales volume in each month to calculate the allocation. The table below from Ms. Buchanan's testimony shows the allocation percentage by customer class:[98]

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[96] Smith Testimony, page 20, lines 8-18.

[97] Buchanan Testimony, page 14, lines 11-15.

[98] Buchanan Testimony, page 14, line 20 through page 15, line 9.

| Customer Class | Estimate of February Usage (Mcf) | Allocation % |
|---|---|---|
| Residential | 7,812,228 | 78.900% |
| General Service - Small | 870,171 | 8.788% |
| General Service - Large | 1,037,545 | 10.479% |
| General Service - Transport Eligible | 170,496 | 1.722% |
| Small Generator Service | 3,224 | 0.033% |
| Irrigation Sales | 1,122 | 0.011% |
| Kansas Gas Supply | 0 | 0.000% |
| Sales for Resale | 6,141 | 0.062% |
| Sales for Resale - BH | 499 | 0.005% |
| Total | 9,901,426 | 100.00% |

74. As explained by Ms. Buchanan, because the financing or carrying costs are much lower with the securitization option, KGS proposes to recover the extraordinary costs over a period between five, seven and ten years. KGS requests that during the securitization process, the Company be given flexibility to select the time period, from among this range, that results in the best outcome for customers. Mr. Smith provides additional discussion on why this flexibility will be helpful in reducing costs for customers. KGS believes that any of these time periods can lead to a reasonable bill impact for KGS customers. The table below, which is from Ms. Buchanan's direct testimony, shows the monthly bill impact by class:[99]

| | | | Year 1 | | Year 5 | |
|---|---|---|---|---|---|---|
| Class | 2020 Annual Report Customer Count | Allocation % | $ Allocated to Class | Monthly Fixed Charge | $ Allocated to Class | Monthly Fixed Charge |
| Residential | 589,076 | 78.90% | $77,745,483 | $11.00 | $72,043,751 | $10.19 |
| General Service - Small | 36,902 | 8.79% | $8,659,738 | $19.56 | $8,024,647 | $18.12 |
| General Service - Large | 11,527 | 10.48% | $10,325,404 | $74.65 | $9,568,156 | $69.17 |
| General Service - Transport Eligible | 502 | 1.72% | $1,696,740 | $281.66 | $1,572,304 | $261.01 |
| Small Generator Service | 690 | 0.03% | $32,086 | $3.88 | $29,733 | $3.59 |
| Irrigation Sales | 197 | 0.01% | $11,166 | $4.72 | $10,347 | $4.38 |
| Kansas Gas Supply | - | 0.00% | $0 | $0.00 | $0 | $0.00 |
| Sales for Resale | 16 | 0.06% | $61,112 | $318.29 | $56,630 | $294.95 |
| Sales for Resale - BH | 1 | 0.01% | $4,967 | $413.88 | $4,602 | $383.53 |
| | | | $98,536,696 | | $91,310,170 | |

[99]Buchanan Testimony, page 14, line 20 through page 15, line 9.

| Class | 2020 Annual Report Customer Count | Allocation % | Year 1 $ Allocated to Class | Year 1 Monthly Fixed Charge | Year 7 $ Allocated to Class | Year 7 Monthly Fixed Charge |
|---|---|---|---|---|---|---|
| Residential | 589,076 | 78.90% | $57,568,820 | $8.14 | $51,459,822 | $7.28 |
| General Service - Small | 36,902 | 8.79% | $6,412,346 | $14.48 | $5,731,890 | $12.94 |
| General Service - Large | 11,527 | 10.48% | $7,645,735 | $55.27 | $6,834,397 | $49.41 |
| General Service - Transport Eligible | 502 | 1.72% | $1,256,399 | $208.57 | $1,123,074 | $186.43 |
| Small Generator Service | 690 | 0.03% | $23,759 | $2.87 | $21,238 | $2.56 |
| Irrigation Sales | 197 | 0.01% | $8,268 | $3.50 | $7,391 | $3.13 |
| Kansas Gas Supply | - | 0.00% | $0 | $0.00 | $0 | $0.00 |
| Sales for Resale | 16 | 0.06% | $45,252 | $235.69 | $40,450 | $210.68 |
| Sales for Resale - BH | 1 | 0.01% | $3,678 | $306.47 | $3,287 | $273.95 |
| | | | $72,964,256 | | $65,221,550 | |

| Class | 2020 Annual Report Customer Count | Allocation % | Year 1 $ Allocated to Class | Year 1 Monthly Fixed Charge | Year 10 $ Allocated to Class | Year 10 Monthly Fixed Charge |
|---|---|---|---|---|---|---|
| Residential | 589,076 | 78.90% | $42,436,323 | $6.00 | $36,021,876 | $5.10 |
| General Service - Small | 36,902 | 8.79% | $4,726,801 | $10.67 | $4,012,323 | $9.06 |
| General Service - Large | 11,527 | 10.48% | $5,635,983 | $40.74 | $4,784,078 | $34.59 |
| General Service - Transport Eligible | 502 | 1.72% | $926,143 | $153.74 | $786,152 | $130.50 |
| Small Generator Service | 690 | 0.03% | $17,514 | $2.12 | $14,866 | $1.80 |
| Irrigation Sales | 197 | 0.01% | $6,095 | $2.58 | $5,174 | $2.19 |
| Kansas Gas Supply | - | 0.00% | $0 | $0.00 | $0 | $0.00 |
| Sales for Resale | 16 | 0.06% | $33,357 | $173.73 | $28,315 | $147.47 |
| Sales for Resale - BH | 1 | 0.01% | $2,711 | $225.91 | $2,301 | $191.77 |
| | | | $53,784,927 | | $45,655,085 | |

75. KGS proposes recovery of the extraordinary costs through a fixed monthly charge. Mr. Smith discusses why this recommended treatment is beneficial when pursuing securitization of the costs. Further, KGS proposes that the fixed charge be calculated using the customer count reported in the KGS 2020 Annual Report.[100]

### 2. RECONCILIATION PROCESS

76. The Act contemplates that not all costs or offsets to extraordinary costs to be securitized will be known at the time a utility requests a Financing Order or at the time the bonds are issued. Thus, the utility must make a reasonable estimate of the amount to be securitized and the Act provides for a later reconciliation of actual costs to those costs initially estimated and included in the

[100] Buchanan Testimony, page 16, lines 6-12.

securitized financing mechanism. Thus, KGS is seeking permission in this case as part of its Plan for permission from the Commission to include in its *Application for Financing Order*, filed in a separate docket, its estimate of extraordinary costs to be securitized. The Application will reflect the resolution of the disputed invoices if that matter has been resolved. It will also reflect a credit for any penalty payments that have been collected from marketers or individually balanced transportation customers by that date. It will reflect any subsequent federal or state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc. However, it is unlikely that these issues will be fully resolved prior to the issuance of Securitized Utility Tariff Bonds. Thus, the reconciliation process allows KGS to include Qualified Extraordinary Costs known and or estimated at that time the Financing Order is issued and to reconcile the securitized amount to actual costs at a later date.[101] The Act specifies that the reconciliation cannot affect the Securitized Utility Tariff Charge. Rather, the reconciliation must be accomplished through a traditional ratemaking process. KGS proposes that on the first anniversary of the issuance of bonds, a comparison is made of the actual costs incurred and the securitized amount. KGS will also determine the amount of penalty collections and the effect of any resolution of the disputed invoices at that time. If the actual costs incurred are less than the securitized amount, KGS will return that amount to gas sales customers through a Winter Event Rider that amortizes the reconciliation amount over the remaining life of the securitization amortization. If the actual costs incurred are greater than the securitized amounts, KGS will charge that amount to gas sales customer through a Winter Event Rider which amortizes the reconciliation amount over the remaining live of the securitization amortization. To determine the rate for each customer class, KGS will use the same allocation factors used to develop the Securitized Utility Tariff Charge. Additionally, KGS proposes that the Winter Event Rider be a fixed charge to

[101] Act, new Section 2(e)(13).

ensure the Winter Event Rider is aligned with the Securitized Utility Tariff Charge.[102]

77. While it is possible that the disputed invoices will be resolved, it is unlikely that all penalties will have been paid. KGS proposes to adjust the Winter Event Rider annually to reflect the resolution of these issues. If entities are allowed to make penalty payments over time, KGS proposes that the amount included in the calculation of the Winter Event Rider rate reflect the entire amount of the penalty recovered each year. Any subsequent federal or state governmental relief in the form of profit disgorgement, civil suit relief, market manipulation findings, etc., received by KGS will also be credited to customers in the annual Winter Event Rider.[103]

### 3. Securitization of Unrecovered Penalty Amounts

78. KGS is seeking permission to include any unrecovered penalty amounts in the amount to be securitized and subsequently reconciled. As indicated by Mr. Robbins and Mr. Postlethwait in their direct testimony, KGS was dedicated to maintaining service for all customers, but especially human needs customers. Even prior to the Commission issuing its Emergency Order, maintaining service to customers, and protecting human life was the Company's goal and guided decisions made during the storm. KGS took all necessary steps to keep the system in balance. If KGS had not made additional natural gas purchases, it is likely that pressures would have dropped, and customers would have lost service. KGS could not have controlled which customers lost service. As Mr. Postlethwait explains, service cannot be restored immediately, and customers would have been without service for potentially several days during the coldest temperatures. Ultimately, all customers benefitted from KGS's actions. The purchase of that gas was reasonable and necessary to ensure system integrity. Additionally, the process of collecting penalties is unlikely to be complete at the time of

[102]Buchanan Testimony, page 19, line 5 through page 20, line 9.

[103]Buchanan Testimony, page 20, lines 17-20.

securitization.[104]

### 4. Customer Education

79. The Act indicates that the Company must provide information to customers detailing the benefits of securitization. KGS is in the process of developing a plan and will present additional information when it makes its filing for a Financing Order. Currently, KGS is exploring the use of bill inserts, e-mails and social media to inform customers about recovery of costs related to the Winter Event and the benefits of securitization. KGS will work closely with the Commission to develop the educational materials.[105]

## D. Benefits of Securitization

80. As explained by Mr. Smith in his direct testimony, securitization is the financial practice of pooling various types of obligations, (in this case, customer receivables for gas purchased and used) and selling their related cash flows to third-party investors as bonds. Ratepayer-backed bonds permit a utility or a state to raise non-recourse debt financing through a separate entity based on a legislatively mandated recovery mechanism, which includes the recovery of a financing charge. The amount of debt the state or utility can issue is based on the legislatively authorized recovery of previous investments by the utility, or expense that the utility's customers owe through the imposition of a non-bypassable charge on each customer's bill. In this case, debt proceeds are used to purchase, from the utility, the recovery rights of the securitized regulatory asset or receivable from the utility. The utility then acts as a "collection agent" for the trust and entity who issues the debt by including separate and distinct line-item charges on its customers' monthly statements, the proceeds which are turned over to the trustee. At a high level, securitization is a process that allows debts to be paid by

[104] Buchanan Testimony, page 21, lines 1-12.

[105] Buchanan Testimony, page 22, lines 4-8.

the issuance of bonds that are repaid over a longer, more manageable timeframe than a typical recovery period. Securitization has proven to be a low-cost capital option compared to traditional financing which commonly carries higher interest rates. A more in-depth view of securitization is shown in Mr. Smith's Exhibit MWS-6, which is a flow chart of the securitization process. Steps 1 through 6 are the steps needed to establish the securitized bonds, the transfer of the asset to a state/trustee, and the payment to KGS. Steps 7 through 11 show the steps involved with the repayment of these bonds. In this case KGS believes that securitization is the best option for its customers as it provides a longer period over which to recover the costs and at a lower overall cost to the customers.[106]

81. As set forth in Mr. Smith's testimony and exhibits, securitization is a lower-cost form of financing the extraordinary gas and other costs related to the Winter Event. Mr. Smith's Exhibit MWS-7 shows the calculation of the anticipated savings using securitization instead of a traditional method of financing and recovery of the extraordinary gas costs. In this example, Mr. Smith calculates the cost to the customer by using the full carrying cost of a regulatory asset over five years compared to the cost of utilizing securitization. The result is a savings for the customer of $111.9 million over a five-year period and a net present value savings of $96.7 million over the same five-year period. The result is a savings for the customer of $141.4 million over a seven-year period and a net present value savings of $117.3 million over the same seven-year period. The result is a savings for the customer of $187.6 million over a ten-year period and a net present value savings of $148.8 million over the same ten-year period. In addition, consistent with the provisions in the Act, securitization provides benefits to customers in terms of affordability when compared to conventional recovery methods. In her testimony, Ms. Buchanan provides a calculation of the monthly fixed cost

[106]Smith Testimony, page 18, lines 1-21; Exhibit MWS-6.

to customers based on (1) recovery through the securitization over a five-, seven- or ten-year period and, (2) recovery through a traditional ratemaking rider over a three-year period. Her calculations clearly show that recovering the regulatory asset balance through securitization is more affordable for customers than the other conventional methods.[107]

82. Assuming the Commission agrees as a result of this docket that the extraordinary gas costs and related costs resulting from the Winter Event should be financed using Securitized Utility Tariff Bonds under the Act, then KGS would submit an application for a Financing Order in a separate docket to obtain approval from the Commission to issue Securitized Utility Tariff Bonds under the Act. KGS is seeking approval or guidance from the Commission in this docket as to whether it could have the flexibility in setting the term of the bonds and the matching amortization period used to recover the extraordinary gas costs and related costs that will be financed using the bonds. Having flexibility in setting the term of the bonds will provide KGS the ability to negotiate the lowest carrying costs assigned to the bonds. In addition, recovery of the unamortized amount of the extraordinary costs from customers using a fixed charge, as opposed to a variable charge, will assist ONE Gas and KGS in obtaining securitization financing of the extraordinary costs incurred as a result of the Winter Event.[108]

## VIII. KGS'S ALTERNATE PLAN

83. If the Commission does not agree with KGS's Plan to finance the qualified extraordinary costs incurred as a result of the Winter Event by using securitization, then KGS proposes to recover the extraordinary costs over three years to minimize the carrying costs that would be incurred on the outstanding balance annually. The table below, which is from Ms. Buchanan's

[107] Smith Testimony, page 20, lines 8-18.

[108] Smith Testimony, page 21, line 9 through page 22, line 17.

testimony, provides the monthly bill impact for each customer class assuming traditional rate-making, a three-year (36 month) recovery period and a fixed charge:[109]

| Class | 2020 Annual Report Customer Count | Allocation % | $ Allocated to Class | Monthly Fixed Charge |
|---|---|---|---|---|
| Residential | 589,076 | 78.90% | $10,312,458 | $17.51 |
| General Service - Small | 36,902 | 8.79% | $1,148,661 | $31.13 |
| General Service - Large | 11,527 | 10.48% | $1,369,601 | $118.82 |
| General Service - Transport Eligible | 502 | 1.72% | $225,062 | $448.33 |
| Small Generator Service | 690 | 0.03% | $4,256 | $6.17 |
| Irrigation Sales | 197 | 0.01% | $1,481 | $7.52 |
| Kansas Gas Supply | - | 0.00% | $0 | $0.00 |
| Sales for Resale | 16 | 0.06% | $8,106 | $506.63 |
| Sales for Resale - BH | 1 | 0.01% | $659 | $658.79 |
| | | | $13,070,284 | |

WHEREFORE, for the reasons set forth herein, KGS respectfully asks that the Commission issue an order approving its Plan to minimize the financial effects of the Winter Event.

Respectfully submitted,

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[109] Buchanan Testimony, page 18, line 12-21.

# <u>VERIFICATION</u>

STATE OF KANSAS
COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is the attorney for Kansas Gas Service Company, a Division of ONE Gas, Inc., named in the foregoing Plan to Minimize the Financial Effects of the 2021 Winter Weather Event and is duly authorized to make this affidavit; that he has read the foregoing and knows the contents thereof; and that the facts set forth therein are true and correct.

James G. Flaherty

SUBSCRIBED AND SWORN to before me this 30th day of July, 2021.

NOTARY PUBLIC - State of Kansas
RONDA ROSSMAN
My Appt. Exp. 5/25/22

Notary Public

Appointment/Commission Expires:

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail, this 30th day of July, 2021, addressed to:

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