

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

**DIRECT TESTIMONY**  
**OF**  
**JANET L. BUCHANAN**  
**ON BEHALF OF KANSAS GAS SERVICE**  
**A DIVISION OF ONE GAS, INC.**

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1       **I.       POSITION AND QUALIFICATIONS**

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

3       A.       My name is Janet L. Buchanan, and my business address is 7421 W 129th St., Overland Park,  
4               Kansas 66213.

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

6       A.       I am the Director of Rates and Regulatory Reporting for Kansas Gas Service (“KGS” or the  
7               “Company”), which is a division of ONE Gas, Inc., (“ONE Gas”).

8       **Q.       PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.**

9       A.       I earned a Bachelor of Arts degree and a Master of Arts degree in economics from the  
10              University of Kansas. From June 1993 through August 1998 and from May 1999 through  
11              August 2011, I worked for the Kansas Corporation Commission (“Commission”) in various  
12              positions with varying levels of responsibility for examining rates for natural gas, electric and  
13              telecommunications utilities, researching current policy issues within the industries, and  
14              managing projects.<sup>1</sup> Positions held included: Utility Rates Analyst, Senior Research  
15              Economist, Managing Research Economist, Telecommunications Economist, Senior  
16              Telecommunications Analyst, Senior Managing Research Analyst, Chief of

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<sup>1</sup> I worked for the Kansas Department of Revenue as a Policy and Program Analyst providing the fiscal impact of proposed changes in the mineral severance tax and the motor fuel tax from September 1998 through April 1999.

1 Telecommunications and Chief of Energy Efficiency and Telecommunications. In September  
2 2011, I joined Texas Gas Service Company, a Division of ONE Gas, Inc., as a Manager of Rates  
3 and Regulatory Analysis. I was promoted to my current position in October 2017.

4 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?**

5 A. Yes, it was.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

7 A. Yes, I have testified before the Commission on numerous occasions.

8 **II. PURPOSE OF FILING AND TESTIMONY**

9 **Q. WHAT IS THE PURPOSE OF THIS FILING?**

10 A. Pursuant to the Commission’s March 9, 2021, Order issued in Docket No. 21-GIMX-303-MIS  
11 (“303 Docket”) and the recently enacted Utility Financing and Securitization Act (Senate  
12 Substitute for House Bill No. 2072) (“Act”), KGS makes this filing of its financial plan to address  
13 extraordinary costs the Company incurred to ensure service to its customers during the  
14 February 2021 Winter Event (“Winter Event”). In this filing, KGS will demonstrate the  
15 reasonableness of the costs incurred; demonstrate that customary ratemaking treatment of  
16 the extraordinary costs would result in extreme rate impacts for customers; and present KGS’s  
17 proposal to minimize the effects on customers by securitizing the extraordinary costs through  
18 the issuance of securitized utility tariff bonds under the provisions set forth in the Act. KGS  
19 requests a Commission order approving its financial plan to minimize the financial impact on  
20 its customers of the extraordinary costs associated with the Winter Event.

21 If the Commission approves KGS’s proposed financial plan in this docket, then KGS would  
22 file, in a separate proceeding, an *Application for Financing Order* pursuant to the terms of the  
23 Act for the issuance of securitized utility tariff bonds to recover the qualified extraordinary  
24 costs incurred as a result of the Winter Event.

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

2 A. My testimony will provide an overview of the extraordinary costs incurred and specifically  
3 address the reasonableness of the legal and consulting fees the Company incurred as a result  
4 of the Winter Event. I also support the calculation of the extraordinary portion of gas costs  
5 incurred during the Winter Event. I will discuss how the collection of penalties related to  
6 unauthorized over-deliveries by marketers and individually balanced customers and disputed  
7 invoices will be treated in the securitization process. Additionally, my testimony will address  
8 the following filing requirements as set out in New Section 2 (c) of the Act:

- 9 • a description of the qualified extraordinary costs to be recovered (Mr. Sean  
10 Postlethwait, Mr. Matt Robbins and Mr. Mark Smith will also address this  
11 requirement);
- 12 • an indication of whether KGS intends to finance all or a portion of the  
13 extraordinary costs using securitized bonds;
- 14 • an estimate of the securitized utility tariff charges needed to recover the  
15 extraordinary costs and the financing costs, and the period of recovery;
- 16 • the proposed method of allocating the revenue requirement for the securitized  
17 charges among KGS's customer classes;
- 18 • a description of the nonbypassable securitized utility tariff charge to be paid by  
19 customers and a proposed adjustment mechanism;
- 20 • a description of the future ratemaking process to reconcile any differences  
21 between the securitized utility tariff costs financed and the final securitized utility  
22 tariff costs incurred by KGS; and,
- 23 • a statement acknowledging that the reconciliation process may affect KGS rates  
24 but shall not affect the securitized utility tariff bonds, the securitized utility tariff  
25 property or the associated securitized utility tariff charges paid by KGS's  
26 customers.

27 My testimony also sets out a general plan for providing information to KGS customers  
28 concerning the benefits of securitization.

29 **III. DESCRIPTION OF EXTRAORDINARY COSTS**

30 **Q. WHAT IS THE DEFINITION OF EXTRAORDINARY COST UPON WHICH KGS HAS ESTABLISHED**  
31 **THE REGULATORY ASSET AND IS USED IN TESTIMONY IN THIS PROCEEDING?**

1 A. In establishing the regulatory asset, KGS relied on the Commission’s Emergency Order issued  
2 February 15, 2021, (“Emergency Order”) which allowed utilities to defer into a regulatory  
3 asset account those extraordinary costs incurred to ensure that customers or customers of  
4 interconnected utilities continued to receive service during the Winter Event. The Emergency  
5 Order will be discussed in greater detail later in my testimony.

6 Because KGS proposes to minimize the effects on customers by securitizing the  
7 extraordinary costs through the issuance of securitized utility tariff bonds, the Company is  
8 also relying on the definition provided in the Act to distinguish the extraordinary costs from  
9 the routine costs experienced by the Company. The Act refers to these costs as “Qualified  
10 Extraordinary Costs.”

11 **Q. HOW DOES THE ACT DEFINE “QUALIFIED EXTRAORDINARY COSTS?”**

12 A. The Act defines “qualified extraordinary costs” as including:

13 . . . costs the public utility has incurred before, on or after the  
14 effective date of this act of an extraordinary nature that would  
15 cause extreme customer rate impacts if recovered through  
16 customary rate-making, including, but not limited to, purchases  
17 of gas supplies, transportation costs, fuel and power costs,  
18 including carrying charges incurred during anomalous weather  
19 events.<sup>2</sup>

20 **Q. DO THE COSTS INCURRED BY KGS DURING THE WINTER EVENT MEET BOTH THE CRITERIA**  
21 **IN THE EMERGENCY ORDER AND THE DEFINITION OF QUALIFIED EXTRAORDINARY COSTS**  
22 **WITHIN THE ACT?**

23 A. Yes. As will be demonstrated later in my testimony and in the testimonies of Mr.  
24 Postlethwait, Mr. Robbins and Mr. Smith, costs the company incurred during the Winter  
25 Event meet the criteria set out in the Emergency Order. They also demonstrate that the

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<sup>2</sup> Utility Financing and Securitization Act, Section 1, (b) 18.

1 costs incurred meet the definition in the Act in that these extraordinary costs would cause  
2 “extreme customer rate impacts if recovered through customary rate-making.”

3 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE CIRCUMSTANCES RESULTING IN QUALIFIED**  
4 **EXTRAORDINARY COSTS.**

5 A. In February 2021, the state of Kansas experienced an abnormally long period of extremely  
6 cold temperatures which jeopardized the Company’s ability to provide uninterrupted service  
7 to customers and resulted in higher costs of the natural gas commodity provided to our gas  
8 sales customers. This Winter Event has been widely considered to be an “anomalous weather  
9 event” which would lead to qualified extraordinary costs. Mr. Robbins and Mr. Postlethwait  
10 provide more information about the extreme nature of the weather during the Winter Event.

11 **Q. DID THE COMMISSION ACKNOWLEDGE THAT UTILITIES WOULD LIKELY INCUR**  
12 **EXTRAORDINARY COSTS DURING THE WINTER EVENT?**

13 A. Yes. As discussed briefly above, during the Winter Event, the Commission established the 303  
14 Docket, and issued an Emergency Order dated February 15, 2021, authorizing jurisdictional  
15 natural gas and electric utilities to do everything necessary to ensure natural gas and  
16 electricity service continued to be provided to their customers or customers of  
17 interconnected utilities in Kansas. The Emergency Order also authorized natural gas and  
18 electric utilities to defer extraordinary costs incurred to ensure that customers continued to  
19 receive service into a regulatory asset account. The Commission identified possible  
20 extraordinary costs to be deferred as including, but:

1 . . . not limited to the cost of procuring and transporting natural gas supplies for  
2 jurisdictional utility customers, costs associated with jurisdictional utilities  
3 coordinating and assisting non-jurisdictional utilities with the transportation of  
4 gas supplies, and any other reasonable costs necessary to ensure stability and  
5 reliability of natural gas and electric service. These deferred costs may also  
6 include carrying costs at the utility's weighted average cost of capital.<sup>3</sup>

7 Without the Commission's approval to defer the extraordinary costs, KGS would have had to  
8 bill customers for the additional gas costs incurred through its Cost of Gas Rider ("COGR").  
9 This would have led to significant bill increases for KGS customers. The Commission's order  
10 allowing for these costs to be deferred will permit KGS to spread the recovery of costs over a  
11 longer period of time and mitigate the impact on customer bills.

12 **Q. DID KGS, IN FACT, INCUR QUALIFIED EXTRAORDINARY COSTS DURING THE WINTER EVENT?**

13 A. Yes. From February 7, 2021, through February 19, 2021, Kansas experienced extreme  
14 weather resulting in unprecedented sustained sub-zero temperatures across the entire KGS  
15 service territory. As indicated in the testimony of Mr. Postlethwait, Mr. Robbins and Mr.  
16 Smith, KGS incurred extraordinary costs in its efforts to maintain natural gas service to its  
17 customers during the Winter Event. Their testimony supports the reasonableness of KGS's  
18 actions and resulting costs. I support the reasonableness of the legal and consulting fees  
19 incurred by the Company relating to the Winter Event. The total cost incurred and deferred  
20 into a regulatory asset account as of June 30, 2021, is approximately \$390 million.  
21 Additionally, I have included an estimate of the additional costs KGS may incur prior to issuing  
22 bonds, if securitization is approved. The table on the next page summarizes the costs by  
23 category.

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<sup>3</sup> Docket No. 21-GIMX-303-MIS, "Emergency Order," paragraph 4.

**Table 1**

Extraordinary Gas Costs	\$358,086,242
Disputed Gas Invoices	\$14,940,073
<b>Total Extraordinary Gas Costs Deferred</b>	<b>\$373,026,315</b>
Carrying Cost	\$10,141,598
Financing Fees	\$6,918,643
Extraordinary O&M	\$224,790
Legal/Consulting	\$94,944
<b>Total Extraordinary Costs Deferred</b>	<b>\$390,406,289</b>
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
<b>Total Estimated Costs to be Securitized</b>	<b>\$451,657,888</b>

**Q. HAS KGS INCURRED LEGAL AND CONSULTING COSTS RELATED TO THE WINTER EVENT?**

A. Yes. KGS has sought legal advice on various issues arising from and related to the Winter Event. The need for legal assistance has continued through the filing of this case and will continue through the conclusion of the Company's anticipated request for approval of a Financing Order and until issuance of bonds or until another recovery method is approved to address the Qualified Extraordinary Costs.<sup>4</sup> Additionally, KGS has engaged a consultant to review its purchasing decisions during the Winter Event and a consultant to assist with

<sup>4</sup> As discussed above, and pursuant to the Utility Financing and Securitization Act, Kansas Gas Service anticipates filing an *Application For Financing Order* in a separate proceeding in the near future.



1 supporting the Company's efforts to obtain a Financing Order and ultimately the  
2 securitization of the Qualified Extraordinary Costs.

3 **Q. WOULD KGS HAVE INCURRED OR CONTINUED TO INCUR THESE LEGAL AND CONSULTING**  
4 **COSTS IF THE WINTER EVENT HAD NOT OCCURRED?**

5 A. No. The Qualified Extraordinary Costs which are the subject of this filing are a result of the  
6 impact of the Winter Event.

7 **Q. WHY IS IT APPROPRIATE FOR KGS'S LEGAL AND CONSULTING COSTS TO BE INCLUDED IN**  
8 **THE AMOUNT TO BE SECURITIZED OR OTHERWISE RECOVERED FROM ITS CUSTOMERS?**

9 A. The Company seeks reimbursement of all extraordinary costs determined by the Commission  
10 to be reasonable. KGS has retained outside attorneys and consultants to perform necessary  
11 tasks related to issues pertinent to this docket and its anticipated *Application Requesting a*  
12 *Financing Order* to recover its Qualified Extraordinary Costs. The work of these outside  
13 attorneys and consultants is supervised, directed and performed in consultation with the  
14 Company's Rates and Regulatory and Legal groups. To ensure that KGS incurs only reasonable  
15 and necessary expenses, all outside attorney and consultant invoices are reviewed by  
16 Company personnel to make certain they are consistent with the rates and scope of work  
17 agreed to by the Company and the outside vendor.

18 **Q. WHAT CRITERIA DID KGS USE TO DETERMINE WHETHER COSTS WERE ELIGIBLE FOR**  
19 **INCLUSION IN THE REGULATORY ASSET?**

20 A. In general, the costs deferred to the regulatory asset account were directly associated with  
21 the Winter Event. The regulatory asset account could not be used to record expenses that  
22 would otherwise be expected under normal operating conditions (regular labor, exempt  
23 employee labor, normal contractor costs, capital projects, etc.).

1       **Q.       PLEASE PROVIDE MORE DETAIL CONCERNING THE CALCULATION OF EXTRAORDINARY GAS**  
2       **COSTS WHICH ARE INCLUDED IN THE REGULATORY ASSET.**

3       A.       KGS determined that deferring the extraordinary cost associated with the volume of gas  
4       obtained from the spot market and from Gas Daily Callables for natural gas provided between  
5       the dates of February 11, 2021, and February 19, 2021, was reasonable and would protect  
6       customers from bearing the immediate impact of paying for the high commodity prices  
7       incurred during the Winter Event. In determining the value of the extraordinary portion of  
8       the gas cost, it was necessary for KGS to first calculate the “normal” cost for the purchased  
9       volumes<sup>5</sup>. To arrive at a “normal” cost of gas for these volumes, KGS utilized the average of  
10      the first of the month index prices for Southern Star Central Gas Pipelines (Texas, Oklahoma,  
11      Kansas), Panhandle Eastern Pipeline Company (Texas, Oklahoma), ANR Pipeline Company  
12      (Oklahoma), and Natural Gas Pipeline Company of America (Midcontinent) as a  
13      representation of a normal price. This average first of month price for February 2021 was  
14      \$2.5725 per MMBtu. The Company then multiplied the volumes of gas associated with the  
15      spot market and Gas Daily Callable purchases during the Winter Event by this average price  
16      to determine the “normal” cost. The difference between the actual purchase cost and this  
17      “normal” cost was then deferred to the regulatory asset as extraordinary cost. Next, the  
18      Company identified and included ‘other gas related costs’ affected by high market pricing or  
19      caused solely by the Winter Event. Those costs included: cash outs, and disputed gas  
20      purchase invoice amounts. However, the extraordinary gas costs included in the regulatory  
21      asset do not include any baseload or storage costs, nor do they include any financing or  
22      carrying costs. The total extraordinary gas costs included in the regulatory asset are

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<sup>5</sup> KGS discussed the method for calculating the “normal” cost for purchased gas volumes with Staff prior to submitting its Cost of Gas Rider adjustment in April 2021.

1 approximately \$373 million. The financing and carrying costs included in the regulatory asset  
2 are discussed in Mr. Smith’s direct testimony.

3 **Q. HAS KGS BILLED CUSTOMERS FOR THE “NORMAL” PORTION OF GAS COSTS ASSOCIATED**  
4 **WITH THE WINTER EVENT?**

5 A. Yes. KGS included those “normal” costs, approximately \$5 million, in the COGR amount billed  
6 in April 2021.<sup>6</sup>

7 **Q. DOES KGS ANTICIPATE INCURRING ANY ADDITIONAL COSTS?**

8 A. Yes. As indicated above, KGS expects to incur additional costs in implementing its proposal  
9 to securitize the extraordinary costs (as will be discussed in the next section of my testimony).  
10 KGS anticipates that, legal fees, consulting fees and carrying costs will continue to be incurred  
11 by the Company. Additionally, the Act allows for the inclusion of the costs incurred by the  
12 Commission to perform its responsibilities in issuing a Financing Order and to observe the  
13 steps taken by the Company to place the securitized utility tariff bonds to market. However,  
14 as will also be discussed later, even with these additional costs, securitization results in  
15 minimizing the financial effect of the Winter Event for customers when compared to  
16 traditional methods of recovery. If the Commission does not approve of KGS’s proposed plan,  
17 legal fees, carrying costs and consulting fees will be incurred until the Commission approved  
18 method of recovery is implemented and costs are recovered. An estimate of the costs that  
19 will be incurred prior to issuance of bonds is provided in Table 1, on page 8.

20 **Q. DOES KGS ANTICIPATE THAT THERE WILL BE ANY REDUCTIONS TO THE EXTRAORDINARY**  
21 **COSTS IDENTIFIED ABOVE?**

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<sup>6</sup> KGS consulted with Staff and it was agreed that KGS could delay the billing of the “normal” costs for one month to give KGS additional time to review gas costs it incurred during the Winter Event. For March 2021, it was determined to be suitable to continue to bill the COGR rate then on file with the Commission.

1 A. It is possible that KGS will be able to recover a portion of the extraordinary costs through  
2 other means. The Company is disputing approximately \$15 million in gas costs charged to  
3 KGS by Macquarie Energy. Additionally, as the Commission is aware, KGS filed a motion for a  
4 limited waiver of the penalty provisions contained in its General Terms and Conditions for Gas  
5 Service.<sup>7</sup> As indicated in that motion, KGS intends to credit all penalty amounts it collects  
6 against the extraordinary gas costs incurred during the Winter Event.<sup>8</sup>

7 **Q. HOW WILL THE DISPUTED AMOUNTS AND RECOVERY OF PENALTY DOLLARS BE ACCOUNTED**  
8 **FOR IN THE SECURITIZATION PROCESS?**

9 A. As discussed in greater detail below, KGS will request a Financing Order from the Commission  
10 in a separate docket. The Act contemplates that not all costs or offsets to extraordinary costs  
11 to be securitized will be known at the time a utility requests a Financing Order or at the time  
12 the bonds are issued. Thus, the utility must make a reasonable estimate of the qualified costs  
13 to be included. The Act provides for a later reconciliation of actual costs incurred to those  
14 that are included in the securitized financing mechanism.<sup>9</sup> KGS will utilize this provision to  
15 address the recovery of any penalty dollars and the payment of the disputed invoices as well  
16 as any costs associated with invoices received after the bonds are issued (i.e., legal invoices  
17 and securitization consulting invoices that will not be finalized until after the bonds are  
18 issued).

19 **Q. HAS KGS BILLED CUSTOMERS FOR ANY OF THE COSTS BOOKED TO THE REGULATORY ASSET?**

20 A. No.

21 **IV. PLAN TO MITIGATE FINANCIAL EFFECT TO CUSTOMERS**

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<sup>7</sup> See, Docket No. 21-KGSG-332-GIG, “Motion for Limited Waiver”, filed on May 28, 2021.

<sup>8</sup> Id, paragraph 11.

<sup>9</sup> Utility Financing and Securitization Act, Section 2(c)(10).

1 Q. WHAT IS KGS'S PLAN FOR MITIGATING THE FINANCIAL EFFECT OF THE IDENTIFIED  
2 EXTRAORDINARY COSTS ON GAS SALES CUSTOMERS?

3 A. The Company plans to seek a Financing Order from the Commission pursuant to the Act and  
4 recover all the extraordinary costs and additional financing costs through a securitized utility  
5 tariff charge as defined in the Act. Commission approval of the Financing Order will allow KGS  
6 to mitigate the costs customers would otherwise pay (under traditional ratemaking recovery  
7 methods) for service the Company provided during the Winter Event. The new statutory  
8 provision accomplishes this purpose through securitization financing. Securitization financing  
9 will allow the Company to extend the time-period over which customers can pay for the  
10 extraordinary costs while also supporting the financial strength and stability of the Company.  
11 Mr. Smith provides background information about securitization in his testimony.

12 Q. IF THE COMMISSION APPROVES A FINANCING ORDER, IN A SEPARATE PROCEEDING, WILL  
13 KGS FOREGO RECOVERY OF ITS REGULATORY ASSET IN THIS PROCEEDING THROUGH  
14 TRADITIONAL RATEMAKING PROCESSES OR OTHER MECHANISMS?

15 A. If a Financing Order is approved by this Commission, it is KGS's intent to recover the regulatory  
16 asset balance presented in this case, along with estimates for costs that will be incurred until  
17 bonds are issued, through the securitized utility tariff charge. However, as discussed  
18 previously, the statute does provide for a reconciliation of the final actual costs incurred with  
19 the securitized amount, with any difference in the amount to be addressed through  
20 traditional ratemaking.

21 Q. IF THE COMMISSION DOES NOT APPROVE A FINANCING ORDER FOR KGS, HOW DOES THE  
22 COMPANY PROPOSE TO RECOVER THE EXTRAORDINARY COSTS ASSOCIATED WITH THE  
23 WINTER EVENT?

1 A. If the Commission does not approve a Financing Order, KGS proposes to recover the costs  
2 over three years through a Winter Storm rider on the customer's bill. This option will be  
3 described in greater detail later in this testimony.

4 **Q. DOES RECOVERY OF KGS'S EXTRAORDINARY COSTS THROUGH A SECURITIZED UTILITY  
5 TARIFF CHARGE PROVIDE QUANTIFIABLE BENEFITS FOR CUSTOMERS?**

6 A. Yes. Please see the testimony of Mr. Smith for a comparison of the net present value of the  
7 costs to customers that are estimated to result from securitization and those costs that would  
8 otherwise result from traditional ratemaking. I provide a discussion of the inputs used in his  
9 calculations in my testimony below.

10 **Q WHAT IS THE ESTIMATED AMOUNT OF EXTRAORDINARY COSTS TO BE SECURITIZED?**

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

16 **V. COST RECOVERY DETAILS**

17 **a. COST ALLOCATION, RATE DESIGN, RECOVERY PERIOD**

18 **Q. PLEASE DESCRIBE HOW KGS PROPOSES TO ALLOCATE THE EXTRAORDINARY COSTS TO  
19 CUSTOMER CLASSES.**

20 A. Because the extraordinary costs are primarily associated with gas costs, KGS proposes to  
21 allocate to customer classes based on each customer class's percentage of the total estimated  
22 February sales volumes. An allocation based on usage ensures that the costs caused by a class  
23 of customers will be paid by that class of customers. This allocation would be utilized until all  
24 extraordinary costs are recovered.

1 **Q. WHY IS KGS USING AN ESTIMATE OF FEBRUARY SALES VOLUME?**

2 A. Because KGS bills in cycles, some of the February sales are reflected in billing data for February  
3 and some are reflected in billing data for March. To account for this result, KGS is using an  
4 average of the sales volume in each month to calculate the allocation.

5 **Q. WHAT PERCENTAGE OF THE EXTRAORDINARY COSTS WILL BE ALLOCATED TO EACH CLASS**  
6 **UNDER THIS METHODOLOGY?**

7 A. Please see the table below for the allocation percentage by customer class.

8 **Table 2**

<b>Customer Class</b>	<b>Estimate of February Usage (Mcf)</b>	<b>Allocation %</b>
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%

9

10 **Q. IF THE COMMISSION APPROVES A FINANCING ORDER, WHAT PERIOD OF TIME DOES KGS**  
11 **PROPOSE FOR RECOVERY OF THE EXTRAORDINARY COSTS?**

12 A. The Act does not dictate a specific period to be utilized for recovery of qualified extraordinary  
13 costs. Because the financing costs are much lower with the securitization option, KGS  
14 proposes to recover the extraordinary costs over a period of five, seven or ten years. KGS  
15 requests that during the securitization process, the Company be given flexibility to select the  
16 time period, from among these three, that results in that results in the least cost for

1 customers. Mr. Smith provides additional discussion on why this flexibility will be helpful in  
2 reducing costs for customers. KGS believes that any of these time periods can lead to a  
3 reasonable bill impact for KGS customers.

4 **Q. DOES KGS PROPOSE RECOVERY OF THE EXTRAORDINARY COSTS THROUGH A FIXED OR**  
5 **VARIABLE CHARGE?**

6 A. KGS proposes recovery of the extraordinary costs through a fixed monthly charge that will be  
7 a separate line item on the bill as required by the Act. Mr. Smith discusses why this  
8 recommended treatment is beneficial when pursuing securitization of the costs. Further, KGS  
9 proposes that the fixed charge be calculated using the customer count reported in the most  
10 recent KGS Annual Report, provided to the Commission annually, available at that time. This  
11 customer count will be updated annually as the fixed monthly charge and true-ups are  
12 calculated.

13 **Q. WHAT IS THE FIXED MONTHLY CHARGE ASSOCIATED WITH A FIVE-, SEVEN- AND TEN-YEAR**  
14 **RECOVERY PERIOD?**

15 A. Table 3, on the following page, provides the monthly fixed charge for each customer class  
16 assuming securitization of the extraordinary costs over the various time-periods using the  
17 currently estimated costs and the customer count from the 2020 KGS Annual Report. The  
18 monthly fixed charge will be calculated annually, based on the declining payment schedule  
19 established, and included in the Company's tariffs. If the Commission approves KGS's financial  
20 plan, a tariff will be included in its Application for a Financing Order for the Commission to  
21 review at that time. The table on the next page demonstrates the fixed monthly charge for  
22 the first and the last year of recovery of the qualified extraordinary costs.



1

**Table 3**

Class	2020 Annual Report Customer Count	Allocation %	Year 1		Year 5	
			\$ 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	

2

Class	2020 Annual Report Customer Count	Allocation %	Year 1		Year 7	
			\$ Allocated to Class	Monthly Fixed Charge	\$ Allocated to Class	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	

3

Class	2020 Annual Report Customer Count	Allocation %	Year 1		Year 10	
			\$ Allocated to Class	Monthly Fixed Charge	\$ Allocated to Class	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	

4

1 Q. IF THE COMMISSION DOES NOT APPROVE KGS'S FINANCIAL PLAN OR DOES NOT APPROVE  
 2 A FINANCING ORDER, WHAT PERIOD OF TIME DOES KGS PROPOSE FOR RECOVERY OF THE  
 3 EXTRAORDINARY COSTS?

4 A. As mentioned above, the financing costs are much lower with the securitization option.  
 5 Because this lower cost financing will not be available, KGS proposes to recover the  
 6 extraordinary costs over three years, through a rider, to minimize the carrying costs that  
 7 would be incurred on the outstanding balance each year. This recovery period leads to a  
 8 reasonable bill impact for KGS customers given the carry charge that would otherwise be  
 9 imposed on the outstanding balance.

10 Q. WHAT IS THE MONTHLY FIXED CHARGE ASSOCIATED WITH A THREE-YEAR RECOVERY  
 11 PERIOD UNDER TRADITIONAL RATEMAKING?

12 A. The table below provides the monthly fixed charge for each customer class to recover the  
 13 extraordinary costs as of June 30, 2021. This calculation is made assuming traditional  
 14 ratemaking, additional carrying costs through February 2022, a three-year recovery period  
 15 and the customer count from the 2020 KGS Annual Report.

16 **Table 4**  
 17

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	

1           **b. RECONCILIATION PROCESS**

2           **Q.     IN THE PRIOR SECTION OF THIS TESTIMONY, YOU MENTIONED THE ACT CONTAINS A**  
3           **RECONCILIATION PROVISION. PLEASE PROVIDE ADDITIONAL INFORMATION CONCERNING**  
4           **HOW THIS PROVISION WILL BE USED BY KGS.**

5           A.     The Act contemplates that not all costs or offsets to extraordinary costs to be securitized will  
6           be known at the time a utility requests a Financing Order or at the time the bonds are issued.  
7           Thus, the utility must make a reasonable estimate of the amount to be securitized and the  
8           Act provides for a later reconciliation of actual costs to those costs initially estimated and  
9           included in the securitized financing mechanism.<sup>10</sup> Thus, in its *Application for Financing*  
10          *Order*, KGS will provide its estimate of extraordinary costs to be securitized. The Application  
11          will reflect the resolution of the disputed invoices if that matter has been resolved. It will also  
12          reflect a credit for any penalty payments that have been collected from marketers or  
13          individually balanced transportation customers by that date. However, it is unlikely that these  
14          issues will be fully resolved. Thus, the reconciliation process allows KGS to include qualified  
15          extraordinary costs known and/or estimated at that time the Financing Order is issued and to  
16          reconcile the securitized amount to actual costs at a later date. The Act specifies that the  
17          reconciliation cannot affect the securitized utility tariff charge. Rather, the reconciliation  
18          must be accomplished through a traditional ratemaking process.

19          **Q.     HOW DOES KGS PROPOSE TO RECONCILE THE SECURITIZED AMOUNT WITH THE ACTUAL**  
20          **COSTS INCURRED AND RETURNED (COLLECTED) TO (FROM) SALES CUSTOMERS?**

21          A.     KGS proposes that on the first anniversary of the issuance of bonds, a comparison is made of  
22          the actual costs incurred and the securitized amount. KGS will also determine the amount of

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<sup>10</sup> Utility Financing and Securitization Act, Section 2(c)(10).

1 penalty collections and the effect of any resolution of the disputed invoices at that time. If  
2 the actual costs incurred are less than the securitized amount, KGS will return that amount to  
3 gas sales customers through a Winter Event Rider which amortizes the reconciliation amount  
4 over the remaining life of the securitization amortization. If the actual costs incurred are  
5 greater than the securitized amounts, KGS will charge that amount to gas sales customer  
6 through a Winter Event Rider which amortizes the reconciliation amount over the remaining  
7 life of the securitization amortization. Because these issues may not be completely resolved  
8 by the first anniversary of the issuance of bonds, this comparison will need to continue  
9 annually, as discussed below, until all disputed invoice and penalty matters are resolved.

10 **Q. HOW WILL KGS DETERMINE THE WINTER EVENT RIDER RATE FOR EACH CUSTOMER CLASS?**

11 A. To determine the rate for each customer class, KGS will use the same allocation factors used  
12 to develop the securitized utility tariff charge. Additionally, KGS proposes that the Winter  
13 Event Rider be a fixed charge to ensure the Winter Event Rider is aligned with the securitized  
14 utility tariff charge.

15 **Q WILL ALL PENALTIES BE PAID AND ALL DISPUTED INVOICES BE RESOLVED BY THE FIRST**  
16 **ANNIVERSARY OF BOND ISSUANCE?**

17 A. While it is possible that the disputed invoices will be resolved, it is unlikely that all penalties  
18 will have been paid to KGS. KGS proposes to adjust the Winter Event Rider annually to reflect  
19 the resolution of these issues. If entities are allowed to make penalty payments over time,  
20 KGS proposes that the amount included in the calculation of the Winter Event Rider rate  
21 reflect the entire amount of the penalty recovered each year.

22 **Q. WHY IS IT REASONABLE TO INCLUDE THE UNRECOVERED PENALTY AMOUNTS IN THE**  
23 **AMOUNT TO BE SECURITIZED AND SUBSEQUENTLY RECONCILED?**

1 A. As indicated by Mr. Robbins and Mr. Postlethwait, KGS was intently focused on protecting the  
2 operational integrity of the gas system and thereby maintaining service for all customers,  
3 especially human needs customers. Even prior to the Commission issuing its Emergency  
4 Order, maintaining service to customers, and protecting human life was the Company's goal  
5 and guided decisions made during the storm. KGS took all necessary steps to keep the system  
6 in balance. If KGS had not made additional natural gas purchases, it is likely that pressures  
7 would have dropped, and customers would have lost service. KGS could not have controlled  
8 which customers lost service. As Mr. Postlethwait explains, service cannot be restored  
9 immediately, and customers would have been without service for potentially several days  
10 during the coldest temperatures. Ultimately, all customers benefited from KGS's actions. The  
11 purchase of that gas was reasonable and necessary to ensure system integrity. Additionally,  
12 the process of collecting penalties is unlikely to be complete at the time of securitization.

13 **Q. WHY DOESN'T KGS RECOVER THE UNPAID PENALTY AMOUNT FROM TRANSPORTATION**  
14 **CUSTOMERS?**

15 A. For those transportation customers served in aggregation groups, which is all but the few  
16 individually balanced transportation customers, KGS's tariff requires that the penalty be  
17 assessed to the marketer and payment made by the marketer. KGS cannot directly assess  
18 transportation customers that are in aggregation groups for these costs.

19 **Q. IS IT THE LEAST COST OPTION FOR THE DISPUTED AMOUNTS AND UNRECOVERED PENALTY**  
20 **AMOUNTS TO BE RECOVERED THROUGH SECURITIZATION WITH A LATER RECONCILIATION?**

21 A. Yes. If KGS were to keep the disputed amounts and penalty amounts in a regulatory asset,  
22 the amounts would accrue a carrying charge equal to the Company's Gas System Reliability  
23 Surcharge ("GSRS") carrying charge. This carrying charge is much greater than the expected  
24 interest rate to be achieved with securitization.

1 **VI. CUSTOMER EDUCATION**

2 **Q. THE ACT INDICATES THAT THE COMPANY MUST PROVIDE INFORMATION TO CUSTOMERS**  
3 **DETAILING THE BENEFITS OF SECURITIZATION. DOES KGS HAVE AN EDUCATION PLAN?**

4 A. KGS is in the process of developing a plan and will present additional information when it  
5 makes its filing for a Financing Order. At this time, KGS is exploring the use of bill inserts, e-  
6 mails and social media to inform customers about recovery of costs related to the Winter  
7 Event and the benefits of securitization. KGS will work closely with the Commission to develop  
8 the educational materials.

9 **VII. CONCLUSION**

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

11 A. Yes, it does.

**VERIFICATION**

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF JOHNSON            )

Janet L. Buchanan, being duly sworn upon her oath, deposes and states that she is Director, Rates and Regulatory Reporting for Kansas Gas Service, a division of ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

  
\_\_\_\_\_  
Janet L. Buchanan

Subscribed and sworn to before me this 27 day of July 2021.



  
\_\_\_\_\_  
NOTARY PUBLIC

My appointment Expires:  
June 21, 2022

## CERTIFICATE OF SERVICE

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

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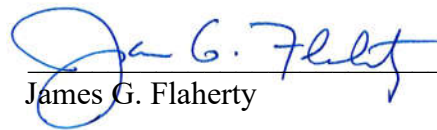


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