

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

In the Matter of the Application of Kansas Gas )  
Service, a Division of ONE Gas, Inc. for an )  
Extension of its Certificate of Convenience ) Docket No. 24-KGSG-825-ACQ  
and Authority to Operate as a Natural Gas )  
Public Utility in and Around the Area )  
Heretofore Served by the City of Lebo, )  
Kansas, a Municipally Owned Natural Gas )  
Utility )

**NOTICE OF FILING OF STAFF’S REPORT AND RECOMMENDATION**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation (“R&R”) regarding the Application of Kansas Gas Service, a Division of ONE Gas, Inc. (“KGS”) to acquire the properties and facilities in and around the City of Lebo, Kansas (“City” or “Lebo”, and obtain a Certificate of Convenience and Authority (“Certificate”) to operate as a natural gas utility in and around the City. Staff has analyzed KGS’ Application to acquire the gas distribution system facilities of Lebo and has determined it comports in all material respects with the municipal acquisition program approved by the Commission in Docket No. 08-ATMG-182-ACQ. For this reason, Staff recommends the following to the Commission:

- Approve the Asset Purchase Agreement for the sale of Lebo’s natural gas distribution facilities to KGS;
- Grant KGS's Certificate request reflected in Exhibit 3 of the Application;
- Permit KGS to put into effect and charge the customers being acquired from Lebo, KGS's current statewide rates and tariff on file with the Commission; and
- Allow KGS to record the purchase price of the system assets at its current distribution system average per customer embedded cost, for meters, services, and mains, for accounting and ratemaking purposes.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and reasonable.

Respectfully submitted,

*/s/ Carly R. Masenthin* \_\_\_\_\_

Carly R. Masenthin, #27944  
Senior Litigation Counsel  
Kansas Corporation Commission  
1500 SW Arrowhead Rd  
Topeka, KS 66604  
Phone (785) 271-3265  
Email: [Carly.Masenthin@ks.gov](mailto:Carly.Masenthin@ks.gov)

**REPORT AND RECOMMENDATION  
UTILITIES DIVISION**

**TO:** Chairperson Andrew J. French  
Commissioner Dwight D. Keen  
Commissioner Annie Kuether

**FROM:** Tim Rehagen, Senior Auditor  
Chad Unrein, Chief of Accounting and Financial Analysis  
Justin Grady, Deputy Director of Utilities  
Jeff McClanahan, Director of Utilities

**DATE:** October 21, 2024

**SUBJECT:** Docket No. 24-KGSG-825-ACQ – In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc. for an Extension of its Certificate of Convenience and Authority to Operate as a Natural Gas Public Utility in and Around the Area Heretofore Served by the City of Lebo, Kansas, a Municipally Owned Natural Gas Utility.

**EXECUTIVE SUMMARY:**

Kansas Gas Service, a Division of ONE Gas, Inc. (KGS or Company) has made this filing in Docket No. 24-KGSG-825-ACQ (24-825 Docket) requesting to acquire the properties and facilities, and a Certificate of Convenience and Authority (Certificate) to operate as a natural gas utility in and around the City of Lebo, Kansas (City or Lebo). In the filing, Lebo and KGS seek approval by the Commission of an Asset Purchase Agreement providing for the sale of Lebo's natural gas distribution properties and facilities to KGS. KGS also requests that the Commission permit it to charge the newly acquired customers KGS's current statewide rates and tariff on file with the Commission as this would allow for a 7.2% decrease in rates for the year (See Exhibit 4 of the Application). Finally, KGS is requesting to record the purchase price of the system assets at its current distribution system average per customer embedded cost, for accounting and ratemaking purposes.

**BACKGROUND:**

On June 6, 2024, KGS filed an Application in Docket No. 24-KGSG-825-ACQ requesting, pursuant to K.S.A. 66-131, that the Kansas Corporation Commission (Commission) issue an extension of its Certificate of Convenience and Authority to operate as a natural gas public utility in and around the area heretofore served by the City of Lebo, Kansas.

KGS is engaged in transporting, distributing, and selling natural gas in Kansas and serves approximately 655,000 residential, commercial, industrial, and public authority customers in Kansas. KGS's Kansas operations are subject to the jurisdiction of the Commission.

KGS has entered into an Asset Purchase Agreement with Lebo to purchase all of Lebo's properties and facilities used for the distribution of natural gas in and around the City for \$1,000,000. A copy of the Asset Purchase Agreement is attached to the Application as Exhibit 1. The purchase price exceeds KGS's average embedded cost for distribution facilities per customer by \$87,470.<sup>1</sup> However, KGS asserts that this purchase price is still reasonable because Lebo's distribution system has been well maintained. Additionally, KGS intends to limit the amount included in rate base to the number of Lebo customers (302) multiplied by the average embedded cost per customer (\$3,022), which equals \$912,530. The Company intends to pay cash for the acquisition.

KGS is seeking to modify the current rates for natural gas service to customers in the City of Lebo, Kansas. The Company intends to use its statewide approved rates that are currently on file with the Commission and to render efficient and sufficient service to the present customers of Lebo. A comparison of Lebo's rates and KGS's proposed rates is attached to the Application as Exhibit 4. The rate comparison shows that the average annual residential bill would decrease by approximately \$49 annually with the use of KGS's rates, resulting in a 7.2% decrease in rates for the year.<sup>2</sup>

KGS also acknowledges that no immediate major improvements to the acquired assets will be necessary and that no surcharge is being requested as part of this Application. However, as discussed in the Analysis section below, KGS anticipates various system improvements being performed within the next few years. Any upstream transportation capacity contracts and existing supply contracts will be consolidated with KGS's existing contracts at the first available opportunity. For accounting and ratemaking purposes, KGS requests to record the purchase price of the system assets at its current distribution system, average per customer embedded cost, for meters, services and mains on an original cost basis.

## **ANALYSIS:**

### **KCC Program for Acquiring Municipalities**

On August 22, 2007, in Docket 08-ATMG-182-ACQ (08-182 Docket), Atmos Energy (Atmos) filed an Application with the Commission seeking approval of a program to acquire the Kansas municipal gas systems. The program establishes a process for the acquisitions that includes provisions for determining a purchase price, voting procedures as required by K.S.A. 15-809, noticing affected customers, and assumption of supply and transportation contracts as appropriate. The program also sets forth a separate set of regulatory terms and conditions that govern the

---

<sup>1</sup> The average embedded cost per customer of \$912,530 was calculated via the following equation:  
\$1,941,132,406 (The sum of the December 2023 plant balances in accounts 374-385) divided by  
642,414 (The number of Kansas customers in KGS's 2023 Supplemental Annual Report) times  
302 (The number of customers in Lebo, as stated in the Application)

<sup>2</sup> This percentage is based on the financials for the period of May 2023 through April 2024 which, at the time the Application was filed, was the most recent twelve-month period of data available. See Exhibit 4 of the Application for the calculation of the \$49 annual rate decrease.

recording of the transaction, rate making procedures for any required system improvements, and provisions for the transfer of certificated territory. Following minor revisions by Staff, the program was approved by the Commission in an Order dated December 12, 2007.<sup>3</sup> Paragraph 11 of the Order describes the process for acquisitions, and paragraph 12 of the Order explains the regulatory terms and conditions of the process. In particular, paragraph 13 of that Order states, "...Staff believes the process submitted by Atmos to be a good template for any public utility and municipality considering the sale of a municipal system." It is Staff's view that this instant filing by KGS to acquire the gas distribution system facilities of Lebo comports in all material respects with the program approved by the Commission in the 08-182 Docket.

### **Qualifications of Purchaser**

As a certificated gas utility in Kansas, KGS is qualified to purchase and operate Lebo's gas distribution utility system. Furthermore, KGS has both the financial resources and managerial expertise to provide sufficient and efficient service to the citizens of Lebo. As of the date of the Application, the City has approximately 302 customers.<sup>4</sup>

### **Purchase Price**

KGS has entered into an Asset Purchase Agreement with Lebo to purchase from Lebo all of its properties and facilities used for the distribution of natural gas in and around the City for \$1,000,000. This equates to approximately \$3,311 ( $\$1,000,000 / 302$ ) per customer, which exceeds KGS's average embedded cost per customer of \$3,022. However, as stated above, this average embedded cost multiplied by the 302 Lebo customers equals \$912,530, which is the amount that KGS intends to include in rate base. Attached to this Report and Recommendation (R&R) is Staff Exhibit 1, a rendition of KGS's average embedded cost per customer based upon data from the Company's 2023 KCC Annual Report, which supports the \$3,022 figure stated above.

### **Condition of Acquired Facilities - Rates**

Pursuant to the regulatory terms and conditions established in the Order for the 08-182 Docket, KGS is required to make any necessary improvements to the acquired system at its own expense until the total sum of the purchase price of the system and the investments in the improvements exceeds the current distribution system average cost per customer embedded cost. In the event that the system improvements require investments that exceed the averaged embedded cost per customer, a surcharge must be established to enable KGS to recover the cost of these investments from the newly acquired customers.

The Citizens' Utility Ratepayer Board (CURB) submitted discovery to KGS requesting a list of repairs, replacements and improvements that KGS expects to make to the acquired distribution assets during the first three years following the acquisition. KGS stated in its discovery response that it intends to make the following enhancements to the Lebo system during the first year following the acquisition:

- Upgrade the meters with Automated Meter Reading, which will cost approximately \$316 per meter. KGS plans to charge this upgrade to a blanket capital project and include it in its next general rate case.

---

<sup>3</sup> See Order Approving Application, 08-182 Docket (Dec. 18, 2007) (08-182 Order).

<sup>4</sup> See paragraph 3 of the Application.

- Upgrade the odorizer and regulation at the town border station. KGS predicts that this upgrade will cost between \$100,000 to \$125,000 and will be recovered via the Gas System Reliability Surcharge (GSRS).<sup>5</sup>

Additionally, KGS mentioned that during the first three years following the acquisition, some of its customer yardlines may be discovered to be bare steel and will need to be replaced in accordance with the Bare Steel Service Line replacement program established in Docket No. 11-KGSG-177-TAR. Finally, KGS stated in its discovery response that “there are two segments of anode protected steel main that will be added to our DIMP program and risk ranked accordingly.” However, KGS believe it is improbable that these additions will need to be made within the first three years subsequent to the acquisition.

Staff initially questioned KGS’s decision to recover the upgrade costs through separate cost-recovery mechanisms (e.g., blanket capital project, GSRS) rather than an additional surcharge on the acquired customers. In order to ascertain the necessity of a surcharge, Staff relied on the conditions established in KGS’s line extension policy found in Schedule GTC8 of the Company’s tariff. This policy, as approved by the Commission, allows KGS to designate a project as economic or “ordinary” on the condition that ten years of projected revenue generated by the project would be sufficient to cover the estimated costs of the investment.<sup>6</sup> Staff submitted discovery to KGS requesting a forecast of the expected revenue contribution from the acquired customers over the next ten years. KGS estimated that it will generate \$1,396,319 of revenue over the next decade from these customers. Staff compared KGS’s estimated ten-year revenues with its forecasted expenditures according to information that is currently quantifiable.

Based on the information that KGS provided in its discovery response to CURB, Staff determined that the upgrade costs could amount to as much as \$220,432. This amount includes (1) \$125,000 of projected costs (the maximum projection) for upgrading the odorizer and regulation at the town border station, and (2) \$95,432 of costs associated with the meter upgrades.<sup>7</sup> Adding this amount to the recorded purchase price of the acquired distribution facilities (\$912,530) equals \$1,132,962. KGS’s estimated revenue contribution for the next ten years exceeds this amount by \$263,357.<sup>8</sup>

KGS has not requested that a surcharge be implemented in the current Docket and based on the cost/revenue comparison discussed above, Staff agrees that a surcharge is not presently necessary. The Company will use its current statewide approved rates and intends to render sufficient and efficient service to the present customers of Lebo.

---

<sup>5</sup> While KGS plans to upgrade the odorizer and regulation equipment and flow these upgrades into the GSRS surcharge, the City of Lebo’s customers will be charged for other GSRS investments that occur on other infrastructure investments in the KGS system.

<sup>6</sup> Although KGS is not actually extending any of its distribution mains (Section 8.01 of Schedule GTC8 concerns the extension of distribution mains), it is acquiring additional distribution facilities and new customers in the process. Staff sees system extensions and the acquisition of new customers as substantially similar. Therefore, Schedule GTC8 of the tariff would be applicable to this issue.

<sup>7</sup> The \$95,432 amount was calculated by multiplying the number of Lebo customers (302) by the cost to upgrade each meter (\$316).

<sup>8</sup> See Staff Exhibit 1 for the calculations of the \$1,132,962 and \$263,357 amounts.

### **Transportation/Supply Contracts – Ratemaking Procedures**

KGS will consolidate existing transportation capacity and supply contracts with its existing contracts at the first available opportunity. Pursuant to the regulatory terms and conditions established in the Order in the 08-182 Docket, it has been the practice of the Commission to allow the purchasing company to record the acquisition at the Company's average embedded cost per customer, for accounting and ratemaking purposes. This is an acceptable practice in small acquisitions such as this one, where the acquired assets do not have a depreciated net book value or original cost records.

### **Special Election of City of Lebo**

According to K.S.A. 15-809, whenever a utility seeks to acquire the properties and facilities of a municipally owned natural gas utility, a special election is held where citizens of the City in which the natural gas system is being acquired are permitted to vote to sell the City's natural gas system. The citizens of Lebo voted to sell the distribution system to KGS by a 122 to 88 margin. KGS is currently in negotiations with the City of Lebo to obtain a franchise agreement. KGS will file a copy of the franchise agreement with the Commission upon its completion and execution as required with such agreements.

### **Notice to Customers and Rate Comparison**

KGS has provided an Affidavit of Mailing (Affidavit) to each City customer.<sup>9</sup> The Affidavit advises of the proposed sale of the natural gas system and includes a comparison of KGS and Lebo's rates. The Affidavit directs comments to the KCC. KGS requests that the customers submit any comments to the Commission no later than July 30, 2024. According to the Public Affairs and Consumer Protection division of the KCC, no customer comments have been received.

### **RECOMMENDATION:**

Staff has analyzed KGS' Application to acquire the gas distribution system facilities of Lebo and has determined it comports in all material respects with the program approved by the Commission in the 08-182 Docket. For this reason, Staff recommends the following to the Commission:

- Approve the Asset Purchase Agreement for the sale of Lebo's natural gas distribution facilities to KGS;
- Grant KGS's Certificate request reflected in Exhibit 3 of the Application;
- Permit KGS to put into effect and charge the customers being acquired from Lebo, KGS's current statewide rates and tariff on file with the Commission; and
- Allow KGS to record the purchase price of the system assets at its current distribution system average per customer embedded cost, for meters, services, and mains, for accounting and ratemaking purposes.

---

<sup>9</sup> The Affidavit of Mailing was late filed on September 10, 2024.

KANSAS GAS SERVICE

Average Per Customer Embedded Cost for Meters, Services, & Mains  
2023 Kansas Supplemental Annual Report

FERC Account	Account Description	A Assigned Direct	B Allocated	C Source	D Total (A + B)	E Cost Per Customer (D / 642,414)	F Average Cost Original Cost (G * 302)	G Investments in Lebo System	H Total System Costs (F + G)
374	Land and Land Rights	\$ 3,432,074	\$ -	(1)	\$ 3,432,074	\$ 5	\$ 1,613	\$ -	1,613
375	Structures and Improvements	927,066	-	(1)	927,066	1.44	435.82	-	436
376	Mains	851,990,929	-	(1)	851,990,929	1,326.23	400,522.50	-	400,522
377	Compressor Station Equipment	-	-	(1)	-	-	-	-	-
378	Measure & Regulator Station Equipment-General	30,417,799	-	(1)	30,417,799	47.35	14,299.46	125,000	139,299
379	Measure & Regulator Station Equipment-City Gate	11,923,274	-	(1)	11,923,274	18.56	5,605.15	-	5,605
380	Services	684,015,077	-	(1)	684,015,077	1,064.76	321,556.74	-	321,557
381	Meters	227,307,851	-	(1)	227,307,851	353.83	106,857.84	95,432	202,290
382	Meter Installations	104,731,104	-	(1)	104,731,104	163.03	49,234.28	-	49,234
383	House Regulators	26,387,232	-	(1)	26,387,232	41.08	12,404.69	-	12,405
385	Industrial Measure & Reg Station Equipment	-	-	(1)	-	-	-	-	-
		\$ 1,941,132,406	\$ -		\$ 1,941,132,406	\$ 3,022	\$ 912,530	\$ 220,432	\$ 1,132,962

Number of Kansas Customers in KGS' 2023 Annual Report (2) 642,414

Number of Customers in Lebo (3) 302

SOURCES:

- (1) Page 7 of the 2023 Supplemental Annual Report
- (2) Page 13 of the 2023 Supplemental Annual Report
- (3) Application, Paragraph 3

Forecasted Revenue

Lebo Class (KGS Tariff)	Average Annual Usage (MCF)	Estimated Annual Service Charge + GSRs Revenue	B	Estimated Delivery Charge Revenue	C	D Estimated Average Total Revenue per Customer (B + C)	E Customer Count	F Estimated Total Annual Revenue (D * E)	G Estimated 10 Years of Revenue (F * 10)
Residential (RS)	49	\$ 261	\$ 153	\$ 414	257	\$ 106,486	\$ 1,064,858		
Commercial (GSS)	136	\$ 386	\$ 329	\$ 716	23	\$ 16,463	\$ 164,631		
Non-Tax School/Church (GSL)	306	\$ 648	\$ 544	\$ 1,192	14	\$ 16,683	\$ 166,830		
<b>Totals</b>					<b>294</b>	<b>\$ 139,632</b>	<b>\$ 1,396,319</b>		

Total System Costs \$ 1,132,962

**Net Revenue \$ 263,357**

SOURCE:  
KGS' Response to KCC Staff Data Request No. 1



## CERTIFICATE OF SERVICE

24-KGSG-825-ACQ

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's R&R was served via electronic service this 21st day of October, 2024, to the following:

JAMES G. FLAHERTY, ATTORNEY  
ANDERSON & BYRD, L.L.P.  
216 S HICKORY  
PO BOX 17  
OTTAWA, KS 66067  
jflaherty@andersonbyrd.com

JOSEPH R. ASTRAB, ATTORNEY  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
joseph.astrab@ks.gov

TODD E. LOVE, ATTORNEY  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
todd.love@ks.gov

DAVID W. NICKEL, CONSUMER COUNSEL  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
david.nickel@ks.gov

SHONDA RABB  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
shonda.rabb@ks.gov

DELLA SMITH  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
della.smith@ks.gov

CARLY MASENTHIN, LITIGATION COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
carly.masenthin@ks.gov

ROBERT E. VINCENT, MANAGING ATTORNEY  
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.  
7421 W. 129TH STREET  
OVERLAND PARK, KS 66213  
robert.vincent@onegas.com

*Ann Murphy*

---

Ann Murphy