

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF KANSAS GAS SERVICE, A DIVISION] KCC Docket No. 24-KGSG-610-RTS
OF ONE GAS, INC. FOR ADJUSTMENT]
OF ITS NATURAL GAS RATES IN THE]
STATE OF KANSAS]

TESTIMONY IN SUPPORT OF UNANIMOUS SETTLEMENT AGREEMENT

ANDREA C. CRANE

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

August 9, 2024

1 **A. INTRODUCTION AND BACKGROUND**

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park
4 Boulevard, #401, Fort Lauderdale, Florida 33306.

5

6 **Q. Please provide a brief summary of this proceeding.**

7 A. On March 1, 2024, Kansas Gas Service, a division of ONE Gas, Inc. (“KGS” or
8 “Company”), filed an Application with the Kansas Corporation Commission
9 (“KCC” or “Commission”) seeking a distribution base revenue increase of
10 \$93,103,156, or approximately 29.4% over pro forma base operating revenue at
11 present rates.

12 The Company’s filing included the impact of rolling into base rates
13 \$35,029,489 of revenues currently being collected through the Gas System
14 Reliability Surcharge (“GSRS”). Thus, the net impact on customers of the
15 Company’s request would have been a net revenue increase of \$58,073,667, or
16 16.5%, over gas service distribution revenues at present rates. The Company’s
17 proposal was based on a capital structure consisting of 59.58% common equity and
18 a cost of equity of 10.25%.

19 In addition to its requested revenue increase, KGS proposed to implement
20 a Performance-Based Ratemaking (“PBR”) mechanism, which would allow the
21 Company to make certain adjustments to revenue between base rate case filings.
22 The Company also proposed a two-tier residential A/B rate structure, with monthly

1 customer charges of \$20.00 for smaller-usage Rate A customers and of \$35.00 for
2 larger-usage Rate B customers. The proposed A/B energy charges are inverse of
3 the customer charge, i.e., higher for Rate A and lower for Rate B.

4

5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes, on July 1, 2024, I filed direct testimony on behalf of the Citizens' Utility
7 Ratepayer Board ("CURB"), addressing CURB's revenue requirement
8 recommendation in this case. Testimony on behalf of CURB was also filed by Dr.
9 J. Randall Woolridge, David Garrett, Glenn Watkins, and Josh Frantz.

10

11 **Q. Please summarize CURB's recommendations in this case.**

12 A. In my Direct Testimony, I recommended a base revenue increase of \$45,799,794.
13 After consideration of the roll-in of \$35,029,489 that is currently being collected in
14 the GSRS, my recommendations resulted in a net revenue increase of \$10,770,305.
15 CURB's recommendation was based on a cost of equity of 9.25% and a capital
16 structure consisting of 52.45% common equity. In addition, our revenue
17 requirement recommendation was based on depreciation rates proposed by Mr.
18 Garrett.

19 CURB recommended that allocation of any revenue increase to the
20 residential rate class be limited to 82.16%, as discussed in Mr. Watkins' testimony.
21 In addition, CURB recommended a monthly residential customer charge of no
22 greater than \$18.43. CURB also opposed the Company's two-tier A/B rate

1 structure for the residential class and the PBR mechanism.

2 Finally, CURB opposed the Company’s plans to increase the charge for
3 disconnections due to non-payment from \$5.00 to \$15.00, and to reinstate a
4 reconnection charge of \$20.00.

5

6 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement
7 discussions?**

8 A. Yes, the parties to this case have engaged in settlement discussions. Accordingly,
9 the parties have entered into a Unanimous Settlement Agreement (“Settlement
10 Agreement”) that resolves all issues in this case. Parties to the Settlement
11 Agreement are KGS, CURB, the Staff of the State Corporation of the State of
12 Kansas (“Staff”), and WoodRiver Energy, LLC. (collectively “Signatories”).

13

14 **B. DESCRIPTION OF THE SETTLEMENT AGREEMENT**

15 **Q. Please summarize the terms of the Settlement Agreement.**

16 A. The Settlement Agreement provides for a base revenue increase of \$70 million.
17 Once the GSRS revenue of \$35.03 million is rolled into base rates, the net revenue
18 increase is \$34.97 million. The Settlement Agreement does not specify a capital
19 structure or cost of capital, however, the Signatories agreed that for purposes of
20 calculating the Company’s GSRS, a pre-tax cost of capital of 8.97% will be used.
21 The Company also agreed to adopt the depreciation rates proposed by Staff in this
22 case, although the parties are free to propose alternative depreciation rates and

1 methodologies in future cases. The Settlement Agreement identifies various
2 amounts and /or amortization periods for rate case expense, cyber-security deferred
3 costs, pension and Other Post-Employment Benefits, and manufactured gas plant
4 remediation costs. The Settlement Agreement also specifies the amortization
5 periods and ratemaking treatment for several components of excess deferred
6 income taxes. The Settlement Agreement provides that costs associated with
7 Brehm Storage will be removed from base rates and collected through the Cost of
8 Gas Rider, as requested by KGS, and requires KGS to establish a regulatory liability
9 for revenues and expenses associated with servicing and administering the
10 agreement with Kansas Gas Service Securitization 1, LLC, (“KGSSI”), as
11 recommended by Staff.

12 The Settlement Agreement identifies the revenue increase to be allocated to
13 each rate class, and provides for a residential customer charge of \$21.75. As a
14 condition of the Settlement Agreement, KGS agreed to withdraw without prejudice
15 its requested PBR mechanism and its proposed two-tier A/B residential rate
16 structure.

17 The Settlement Agreement also states that the Parties agree to use Staff’s
18 Heating Sensitivity Factors and Heating Degree Day Normals in calculating the
19 Weather Normalization Adjustment (“WNA”).

20 Finally, the Settlement Agreement permits the Company to implement its
21 proposed disconnection and reconnection fees, but preserves the Signatories’ rights
22 to present alternative proposals in Docket No. 24-GIMG-453-GIG, which is

1 currently on-going.

2

3 **C. ANALYSIS OF THE SETTLEMENT AGREEMENT**

4 **Q. Are you familiar with the standards used by the KCC to evaluate a unanimous**
5 **settlement that is proposed to the Commission?**

6 A. Yes, I am. As stated on page 3 of the Joint Motion to Approve Unanimous
7 Settlement Agreement, the KCC has adopted three guidelines for use in evaluating
8 Unanimous Settlement Agreements. These include: (1) Is the agreement supported
9 by substantial competent evidence? (2) Does the agreement result in just and
10 reasonable rates? (3) Are the results of the Settlement Agreement in the public
11 interest?

12

13 **Q. Is the Settlement Agreement supported by substantial competent evidence in**
14 **the record?**

15 A. Yes, it is. As shown in Schedule ACC-1 to my Direct Testimony, CURB
16 recommended a base revenue increase of \$45.8 million, while Staff recommended
17 a base revenue increase of \$66.7 million. These recommendations excluded the
18 impact of the GSRS roll-in. The \$70 million base revenue increase reflected in the
19 Settlement Agreement is approximately midway between CURB's
20 recommendation and the Company's filed position. In addition, the proposed
21 increase is relatively close to the \$66.7 million proposed by Staff in its direct
22 testimony. Therefore, the \$70 million increase is within the zone of reasonableness

1 based on all of the testimony that was filed in this case.¹

2 In addition, while the Settlement Agreement does not specify a cost of
3 capital, the pretax rate of return of 8.97% that will be used to quantify GSRS
4 adjustments is also within the zone of reasonableness, based on the capital
5 structures and cost rates filed by the Signatories. While the pretax rate of return of
6 8.97% is higher than the pre-tax rate recommended by Dr. Woolridge of 8.23%, it
7 is lower than the pre-tax rates of 9.50% and 9.07% proposed by KGS and Staff
8 respectively. The pre-tax rate of return of 8.97% is also close to the 8.7% approved
9 in the most recent Atmos base rate case for use in that utility's GSRS filings, once
10 the higher debt costs of KGS are considered.

11 The Settlement Agreement also adopts Staff's depreciation rates, which
12 were relatively close to the depreciation rates proposed by CURB witness David
13 Garrett. Therefore, there is sufficient testimony to demonstrate that the revenue
14 increase reflected in the Settlement Agreement is supported by competent evidence
15 in the record.

16
17 **Q. Are other provisions of the Settlement Agreement based on competent**
18 **evidence?**

19 **A.** Yes, they are. The withdrawal in this case of the PBR mechanism is consistent with
20 the recommendations made by both CURB and Staff. Similarly, both CURB and

¹ WoodRiver Energy, LLC did not file testimony.

1 Staff also opposed the new residential A/B rate structure proposed by KGS, which
2 the Company has now agreed to withdraw without prejudice.

3 The class cost of service allocations contained in Appendix B to the
4 Settlement Agreement will result in approximately 75% of the revenue increase
5 being allocated to the residential class, which is significantly lower than the
6 allocations of 87.12% and 82.16% proposed by KGS and CURB respectively. The
7 provisions regarding the calculation of the WNA, and the regulatory liability
8 associated with servicing and administering the KGSSI agreement were based on
9 recommendations made by Staff, while the treatment of the Brehm Storage costs
10 was proposed by KGS and was not opposed by the other parties in this proceeding.

11

12 **Q. Will the Settlement Agreement result in just and reasonable rates?**

13 A. Yes, it will. As noted above, the base revenue increase is well supported by the
14 evidence in this case. Moreover, the percentage of the increase allocated to
15 residential customers is significantly less than was proposed by KGS. The
16 allocation reflected in the Settlement Agreement will result in a base rate increase
17 to the residential class of 22.78%, just slightly above the system average increase
18 of 22.1%, as shown in Appendix B of the Settlement Agreement, while the average
19 increase to the small commercial class is 18.66%, below the system average. The
20 Settlement Agreement provides for a fixed residential customer charge of \$21.75,
21 as recommended by Staff, significantly below the average proposed for both A/B
22 rate structures by KGS of \$27.50.

1 **Q. Are the results of the Settlement Agreement in the public interest?**

2 A. Yes, the Settlement Agreement is in the public interest and no party is opposed to
3 the Settlement Agreement. While the \$70 million base revenue increase is
4 substantial, over 50% of this amount is already being charged to ratepayers through
5 the GSRS. In addition, KGS's base rates have not increased in over five years,
6 since February 6, 2019, which was the effective date of rates in KCC Docket No.
7 18-KGSG-560-RTS. The allocations included in the Settlement Agreement are
8 reasonable and will therefore produce just and reasonable rates when combined
9 with the reduction in the proposed revenue requirement.

10 The Settlement Agreement eliminates the Company's PBR proposal, which
11 would have shifted risks from shareholders to ratepayers without any
12 commensurate ratepayer benefit. In addition, the Settlement Agreement excludes
13 the proposed two-tier A/B residential rate structure proposed by KGS, which was
14 opposed by both Staff and CURB. Finally, the Settlement Agreement will mitigate
15 the costs of additional litigation of this case. Given all of these provisions and
16 benefits, the Settlement Agreement is in the public interest.

17
18 **Q. What do you recommend?**

19 A. I recommend that the KCC find that the Settlement Agreement is supported by
20 substantial competent evidence in the record, that the Settlement Agreement results
21 in just and reasonable rates, and that the Settlement Agreement is in the public
22 interest. Therefore, I recommend that the KCC approve the Settlement Agreement

1 as filed.

2

3 **Q. Does this conclude your testimony?**

4 **A. Yes, it does.**

VERIFICATION

STATE OF FLORIDA)
) ss:
COUNTY OF BROWARD)

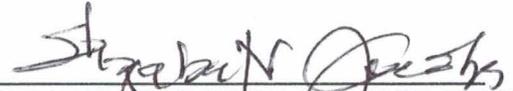
Andrea C. Crane, President of The Columbia Group, Inc., upon being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing Testimony in Support of Unanimous Settlement Agreement of Andrea C. Crane, and that the statements made therein are true and correct to the best of her knowledge, information and belief.

SIGNED this 6th day of August, 2024.

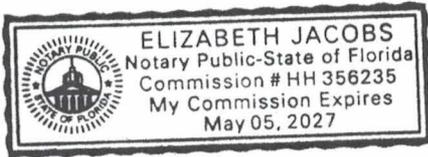


ANDREA C. CRANE

SUBSCRIBED AND SWORN TO before me by Andrea C. Crane on this 6th day of August, 2024.



**NOTARY PUBLIC IN AND FOR THE
STATE OF FLORIDA**



My Commission Expires: 5/5/27

CERTIFICATE OF SERVICE

24-KGSG-610-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 9th day of August, 2024, to the following:

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