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PROPONENT TESTIMONY

SB 279

Rick Grundman
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ONE Gas, Inc.

House Committee on Energy, Utilities and Telecommunications
March 14th, 2018

Good morning Chairman Seiwert and Members of the Committee. By way of introduction, I am Rick Grundman, Vice President of Government Affairs & Community Relations and former Vice President of Rates and Regulatory Affairs, for ONE Gas, Inc., a stand-alone, investor-owned local distribution natural gas utility. ONE Gas, Inc., has three divisions: Kansas Gas Service, Oklahoma Natural Gas and Texas Gas Service. ONE Gas is one of the largest natural gas utilities in the United States, with more than 2.1 million customers. Kansas Gas Service, which is headquartered in Overland Park, serves approximately 635,000 customers in Kansas.

Safety is the most important priority for Kansas Gas Service. Continuous, prudent capital investment in our pipeline system ensures that we can provide safe and reliable gas service to our customers. We are proud of the fact that our customers are confident that their natural gas service is delivered safely and is available when needed.

Twelve years ago, Kansas Gas Service, Black Hills Energy and Atmos Energy brought forward legislation that created the Gas Safety and Reliability Policy Act now found at K.S.A. 66-2201 et. seq. (commonly referred to as "GSRS"). The premise of that legislation was to provide a mechanism for the timely recovery of costs associated with the accelerated replacement of aging infrastructure. GSRS allows gas utilities to file for rate recovery of costs associated with the investments in only a portion of the utilities' safety programs, as well as government-mandated relocation projects. Historically, these investments and their recovery have not been controversial.

Examples of investments and costs allowed in GSRS filings include capital investments associated with the replacement of obsolete materials such as cast iron and bare steel service lines. With regard to the Government-mandated relocation projects, a utility is permitted to recover costs associated with moving existing pipelines and facilities ahead of federal, state and local road projects. Finally, the GSRS allows a natural gas utility to recover costs associated with repairs

resulting from accidental third-party damages to a company's existing facilities, assuming the repairs do not include any upgrades to the system.

The statute permits the utilities to make up to five (5) annual GSRS filings before a full rate review is required and provides the Commission 60 days to review each filing and to issue an order or require a hearing. It is important to note that GSRS does not permit the gas utilities to seek recovery of their non-capital expenses associated with safety-related and mandated government relocation projects until a subsequent rate case.

The Kansas Corporation Commission and their staff thoroughly review the expenditures in GSRS filings to ensure compliance with the GSRS statute and determine the appropriate surcharge. The statute places a limit on the surcharge of \$.40 per residential customer per month. To ensure transparency, the surcharge is displayed as a separate line item on customers' bills.

The benefits of a GSRS filing to utilities and customers include:

- The KCC retains complete oversight and approval authority;
- Utilities are limited to five annual GSRS filings, after which they must file a rate case or cease collecting the surcharge;
- Allows for expedited recovery of safety-related investments, which are rarely, if ever, controversial;
- Encourages safety-related investments and may reduce the frequency of general rate cases. This saves customers the hundreds of thousands of dollars of expenses that are incurred in a rate case;
- Reduces the impact of customer "rate shock" that can occur from general rate case filings; and
- Gives the Commission and Staff more frequent reporting on utilities' capital investments in safety.

By any measure, the GSRS legislation, as passed in 2006, has lived up to its promise. Since 2006, KGS has invested over \$775 million dollars in our Kansas system and due to declining natural gas costs and efforts by KGS to improve efficiencies, Kansas Gas Service customers paid, on average, over \$311 less on their gas bills in 2016 than they did in 2005. However, after gaining years of experience with this mechanism, and discussing elements of SB 279 with Kansas Corporation Commission and CURB staff, we have identified several changes to the mechanism that we believe are reasonable and necessary to ensure that our long-term strategic safety program can remain successful.

The gas companies have approached the KCC and Staff with our concerns and over the course of the past three years, the utilities have presented the Commission a variety of options and alternatives that have worked in other jurisdictions in which the utilities operate and which we believe would be appropriate for Kansas. These requests resulted in the Commission undertaking a two plus year docket (Docket No. 15-GIMG-343-GIG) that ultimately resulted in an Order (343 Order) which established a voluntary alternative mechanism for the replacement of aging pipe,

referred to as “ARP”. Unfortunately, none of the utilities’ previous recommendations or requests were accepted by the Commission.

Regrettably, we do not see the process and requirements set out under the Commission’s ARP program (as approved in the 343 Order) as workable. However, we do believe that the proposed maximum surcharge of an additional \$0.40 per month per residential customer as set forth in the ARP program (and approved in the 343 Order) is a reasonable addition to the GSRS cap. Accordingly, we have proposed to increase the GSRS maximum surcharge in the current statute by the same amount, resulting in a proposed maximum surcharge of \$0.80 per customer per month.

Since the cap was established in 2006, the quantity of work that can be accomplished within the mechanism’s guidelines have diminished due to inflation. Utilities are also facing more stringent requirements for infrastructure replacement that must be accomplished under that cap. As a result, Kansas Gas Service comes before you today seeking reasonable updates to the 2006 Gas Safety and Reliability Policy Act. Additionally, since the passage of the GSRS, cyber and physical security threats have increased. Adding to this burden are the rare, but highly visible, incidents like the one in San Bruno, California, which has raised awareness about the need to replace aging infrastructure. As a result, federal and state rules and laws requiring gas utilities to develop more robust pipeline integrity and replacement programs to better identify, track and prioritize replacements of infrastructure system have been implemented.

The bill before you today would change existing law by allowing for the recovery of the following additional items:

- Investments made in accordance with the utility’s safety and risk management programs, which are reviewed by the Kansas Corporation Commission and required by the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA);
- System security costs to protect both physical and cyber assets;
- Inclusion for recovery of the cost of replacing meters in a GSRS filing; and
- An additional surcharge of \$0.40 per residential customer per month, bringing the maximum surcharge to \$0.80 per residential customer per month.

Kansas Gas Service did not make the decision to request legislation without a great deal of internal debate and discussion. As a regulated utility, we appreciate the regulatory process and the relationship we’ve built over many decades at the KCC. I want to assure you that we have shared our proposals with KCC staff and CURB and the amendments made in the Senate Utilities Committee addressed two issues they raised, and we believe this bill promotes positive changes which balance the needs of all stakeholders.

Thank you for your time and attention today. On behalf of ONE Gas and Kansas Gas Service, we respectfully ask that you vote for SB 279 as it is fair, reasonable and balanced public policy. I am pleased to stand for questions at the appropriate time.

Kansas Gas Service Average Annual Residential Bill 2005 - 2016

KGS Total Delivered Natural Gas Bills Since GSRs Implemented

Declining Natural Gas Costs and Company Efficiencies Lead to Lower Bills

