

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

Before Commissioners: Dwight D. Keen, Chair
 Susan K. Duffy
 Andrew J. French

In the Matter of the Application of Kansas Gas)
Service, a Division of ONE Gas, Inc. for the) Docket No. 22-KGSG-466-TAR
Recovery of Qualified Extraordinary Costs and)
Issuance of a Financing Order.)

ORDER APPROVING UNANIMOUS SETTLEMENT AGREEMENT

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the pleadings and record, the Commission makes the following findings:

1. In February 2021, a significant portion of United States experienced sub-zero temperatures and increased demand for electricity and natural gas caused by Winter Storm Uri, causing wholesale natural gas prices to increase 10 to 100 times higher than normal.¹ On February 15, 2021, the Commission issued an Emergency Order in Docket No. 21-GIMX-303-MIS: (1) directing all jurisdictional utilities to do everything necessary to ensure natural gas and electricity continued to be provided to customers in Kansas,² (2) authorizing every jurisdictional electric and natural gas utility to defer extraordinary costs related to Winter Storm Uri to a regulatory asset account,³ and (3) directing the jurisdictional utilities to develop a plan to minimize the Winter Event's financial impact on their ratepayers.⁴

¹ Application for Financing Order, March 31, 2022, ¶ 3.

² Emergency Order, Docket No. 21-GIMX-303-MIS, Feb. 5, ¶ 3.

³ *Id.*, ¶ 4.

⁴ *Id.*, ¶ 5.

2. On April 9, 2021, Governor Kelly approved Senate Substitute for House Bill No. 2072, more commonly known as the Utility Financing and Securitization Act (K.S.A. 66-1,240 *et seq.*) The Utility Financing and Securitization Act allows utilities to use securitized bonds to pay for extraordinary costs at more favorable terms than traditional financing.

3. On February 8, 2022, the Commission approved a settlement agreement in the 21 - KGSG-332-GIG Docket, permitting Kansas Gas Service, a Division of ONE Gas, Inc. (KGS) to recover \$366 million in deferred natural gas costs incurred during Winter Storm Uri.⁵ Under the terms of the approved settlement, KGS agreed to apply for a Financing Order to enable it to issue Securitized Utility Tariff Bonds (Securitized Bonds) to obtain the most favorable financing to reduce costs to ratepayers.⁶

4. On March 31, 2022, pursuant to K.S.A. 66-1,240 *et seq.*, KGS filed an Application for Financing Order for permission to issue Securitized Bonds to finance the Qualified Extraordinary Costs incurred due to Winter Storm Uri.⁷ Subject to update, true-up and verification, KGS proposes to recover \$366,158,817 of Qualified Extraordinary Costs.⁸ After including estimated carrying costs, that figure rises to \$390,165,368.⁹ While KGS prefers a ten-year recovery period, it requests flexibility to implement either a five-, seven-, ten-, or twelve-year scheduled recovery period depending on which period best serves sales customers.¹⁰ KGS believes securitizing the Winter Event's Qualified Extraordinary Costs will minimize the financial impact on its retail ratepayers.¹¹ KGS' Application was supported by testimony from its Director of Rates

⁵ Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, Docket No. 21-KGSG-332-GIG, Feb. 8, 2022, ¶ 21.

⁶ *Id.*, ¶ 5.

⁷ Application for Financing Order, March 31, 2022, ¶ 9.

⁸ *Id.*, ¶ 27.

⁹ *Id.*

¹⁰ *Id.*, ¶ 37.

¹¹ *Id.*, ¶ 66.

and Regulatory Reporting, Janet L. Buchanan; Mark W. Smith, the Vice President and Treasurer for ONE Gas, Inc., KGS' parent company; and Charles N. Atkins II, the CEO of Atkins Capital Strategies LLC.

5. On May 5, 2022, Smith filed supplemental testimony, sponsoring four late-filed exhibits: (1) the Purchase and Sales Agreement; (2) the Servicing Agreement; (3) the indenture between the Special Purpose Entity (SPE) and Indenture Trustee; and, (4) the SPE LLC Agreement.¹²

6. On June 3, 2022, Smith and Buchanan each filed updated testimony to reflect extraordinary costs as of April 31, 2022, the payments of penalties through February 2023, and to introduce new exhibits reflecting increased interest rates, widened interest rate spreads between high quality corporate debt and U.S. Treasury Bonds, additional legal and consulting fees, and penalties which have been billed and collected.¹³ Smith reiterates his belief that a 7 to 12-year amortization period is best for customers.¹⁴

7. On June 17, 2022, Patrick Orr of the Citizens' Utility Ratepayer Board (CURB)¹⁵ and Justin Grady of Commission Staff (Staff) filed testimony. Orr opined that securitization is generally cost-beneficial to residential and small business customers, and should be approved.¹⁶ However, Orr urged KGS to: (1) reconsider volumetric-based recovery of securitized bonds, (2) continue to work with CURB to institute a low-income tariff, and (3) conduct workshops to educate customers about the extraordinary costs that will appear on their bills.¹⁷ Grady testified that the Commission should authorize KGS to recover an estimated \$327,873,528 in Qualified

¹² Supplemental Testimony of Mark W. Smith, May 5, 2022, p. 3.

¹³ Direct Testimony of Janet L. Buchanan, Updated and Supplemented June 3, 2022, p. 49.

¹⁴ Direct Testimony of Mark W. Smith, Updated and Supplemented June 3, 2022, p. 12.

¹⁵ CURB was granted intervention on April 14, 2022.

¹⁶ Direct Testimony of Patrick Orr, June 17, 2022, p. 2.

¹⁷ *Id.*, pp. 2-3.

Extraordinary Costs (QECs) associated with Winter Storm Uri, through the issuance of securitized ratepayer backed bonds, and \$220,019 in QECs attributable to the Sales Service for Resale (SSR) class, to be recovered in a separate rider over 5 years.¹⁸ Grady agrees that the issuance of securitized bonds is expected to provide net quantifiable rate benefits to customers, in the range of \$37 to \$49 million.¹⁹ Grady advocates for a pre-issuance review process, where the Commission's Designated Representative can oversee the process.²⁰ He explains that Staff believes the fixed per customer charge is reasonable and therefore, recommends approval of the allocation of Winter Storm Uri costs between the customer classes recommended by Buchanan.²¹ In addition, he expresses Staff's agreement with KGS' recommendations for: (1) semi-annual (or more frequently) true-up adjustment mechanism,²² (2) the settlement fee to be charged to any sales customer that wants to switch to transportation service during the term of the WESCR Tariff,²³ and (3) the reconciliation process, comparing the final amount of QECs to the final amount of securitized bond issuance, with the difference being refunded to customers through the Cost of Gas Rider (COGR) process.²⁴ Lastly, Staff recommends approval of the waiver of Sec. 4.01.02 of KGS' tariff, so bonds take priority over the rest of a customer bill if it receives partial payment.²⁵

8. On July 1, 2022, Atkins, Buchanan, and Smith filed rebuttal testimony. Atkins fully supports the spirit of Grady's recommended pre-issuance review process, but wants to ensure any discussions with rating agencies or potential investors are conducted by KGS and its underwriter.²⁶ Addressing CURB's concerns, Buchanan testified KGS continues to believe the

¹⁸ Direct Testimony of Justin T. Grady. June 17, 2022, p. 4.

¹⁹ *Id.*, p. 5.

²⁰ *Id.*, pp. 5-6.

²¹ *Id.*, p. 6.

²² *Id.*

²³ *Id.*

²⁴ *Id.*, p. 7.

²⁵ *Id.*, pp. 7-8.

²⁶ Rebuttal and Responsive Testimony of Charles N. Atkins II, July 1, 2022, p. 3.

benefits of a monthly, customer-based charge outweigh the benefits of a volumetric charge and is open to participating in additional technical conferences or workshops for all jurisdictional utilities to gather additional information and ideas for addressing energy burden generally for all utilities.²⁷ Smith voiced concerns with Staff's recommendations about the Designated Representative's role, and explained the Designated Representative should participate in, rather than direct the securitization process.²⁸

9. On July 17, 2022, KGS, Staff, and CURB filed a Joint Motion to Approve Settlement Agreement. Some of the key terms of the Settlement Agreement include:

- Authorizing KGS to recover \$328,043,946 in Qualified Extraordinary Costs (QEC) through securitized bonds;²⁹
- Authorizing KGS to recover \$220,133 in QECs Attributable to the Sales Service for Resale (SSR) Class through a separate rider over five years, based upon a volumetric charge of \$0.77 per Mcf;³⁰
- The Commission's Designated Representative, including its legal and investment advisors, observes, reviews, confers, and consults with KGS and its underwriters on all facets of the securitization process;³¹
- KGS may issue securitized bonds with a scheduled final maturity of between seven to ten years, with some flexibility on the maximum term if the ratings agencies require a change to rate the securitized bonds as AAA;³²

²⁷ Rebuttal and Responsive Testimony of Janet L. Buchanan, July 1, 2022, p. 6.

²⁸ Rebuttal and Responsive Testimony of Mark W. Smith, July 1, 2022, p. 5.

²⁹ Settlement Agreement, July 14, 2022, ¶ 10.

³⁰ *Id.*, ¶ 11.

³¹ *Id.*, ¶ 13.

³² *Id.*, ¶ 14.

- Requests Commission approval and issuance of the proposed Financing Order, and associated transaction documents;³³
- Approves KGS' Winter Event Securitized Cost Recovery Rider Tariff, with the semi-annual (if not needed more frequently) true-up adjustment mechanism described in the WESCR tariff;³⁴
- Charges a settlement fee to any sales customer that wants to switch to transportation service during the term of the WESCR tariff;³⁵
- A reconciliation process, comparing the final amount of QECs to the final amount of securitized bond issuance, and the difference is credited/charged to customers through the Cost of Gas Rider (COGR) process;³⁶
- KGS may earn a return on its equity contribution to the Capital Sub Account equal to KGS' approved weighted average cost of capital (8.6012%);³⁷
- An agreement on the customer communication plan presented by KGS to inform and educate its customers about the purpose and benefits of the issuance of securitized bonds;³⁸ and
- KGS will study whether its residential customer class would benefit by being divided into multiple subclasses similar to the rate choice options approved for Oklahoma Natural Gas, and present its finding in its next rate case.³⁹

³³ *Id.*, ¶ 15.

³⁴ *Id.*, ¶ 17.

³⁵ *Id.*, ¶ 18.

³⁶ *Id.*, ¶ 19.

³⁷ *Id.*, ¶ 20.

³⁸ *Id.*, ¶ 21.

³⁹ *Id.*, ¶ 24.

10. On July 21, 2022, Buchanan filed testimony in support of the settlement agreement on behalf of KGS, Grady filed testimony in support of the settlement agreement on behalf of Staff, and Orr filed testimony in support of the settlement agreement on behalf of CURB. All three witnesses believe the settlement: (1) is supported by substantial competent evidence in the record as a whole, (2) will establish just and reasonable rates, and (3) is in the public interest.⁴⁰

11. Buchanan notes the Parties have agreed the Commission's designated representative, legal, and investment banking advisors can review with KGS and its underwriters on the securitization process, and may listen in on meetings with investors or ratings agencies, but not participate in those meetings.⁴¹ She restates her belief the settlement produces net quantifiable benefits to customers in the range of \$35 to \$46 million and reduces the rate impact of the Winter Event costs.⁴²

12. Grady explains that Staff has independently validated the net quantifiable rate benefits to customers as a result of using securitized ratepayer backed bonds (\$35 to \$46 million in net present value benefits).⁴³ He opines that residential customers would face an increased monthly bill of \$4.87 to \$6.42 over seven to ten years if securitized bonds were issued, compared to \$9.04 a month over a five-year period or \$13.90 a month over three years under traditional ratemaking.⁴⁴

13. Orr reiterates the Settlement's claim that the issuance of securitized bonds to recover the QEC from the Winter Event is expected to provide net quantifiable rate benefits of

⁴⁰ Testimony of Janet L. Buchanan in Support of Unanimous Settlement Agreement (Buchanan Settlement Testimony), July 21, 2022, pp. 20-22; Testimony in Support of Unanimous Settlement Agreement by Justin T. Grady (Grady Settlement Testimony), July 21, 2022, pp. 15-19; Testimony in Support of Settlement Agreement by Patrick Orr (Orr Settlement Testimony), July 21, 2022, pp. 10-13.

⁴¹ Buchanan Settlement Testimony, p. 14.

⁴² *Id.*, p. 22.

⁴³ Grady Settlement Testimony, p. 16.

⁴⁴ *Id.*

\$35-\$46 million to KGS's retail customers.⁴⁵ While CURB prefers to recover costs through a volumetric, rather than fixed charge, because it was advised that using a volumetric charge could negatively impact the bond rating, CURB is not opposing the fixed charge.⁴⁶ CURB's concern over rising natural gas prices on low income customers is addressed by the Settlement's pledge to look into implementing a low-income tariff.⁴⁷

14. On August 4, 2022, the Commission held a hearing on the Settlement Agreement. KGS, Staff, and CURB all appeared by counsel. The Commission heard live testimony from three witnesses: Janet Buchanan of KGS, Patrick Orr of CURB, and Justin Grady of Staff.⁴⁸ The Commissioners were given an opportunity to cross-examine the witnesses, and the sponsoring parties had the opportunity to redirect their own witnesses.

15. On August 5, 2022, KGS, Staff, and CURB filed a Joint Motion to Amend the Settlement Agreement, reflecting updated allocation percentages based on removing Sales Service for Resale (SSR) customer class from the WESCR Tariff and updating the definition of Revenue Requirement to include "+ Replenishments to Capital Subaccounts if needed."⁴⁹

16. The Settlement Agreement is a unanimous settlement agreement as defined by K.A.R. 82-1-230a. Therefore, there is no need to fully apply the Commission's five-factor test for evaluation of settlements.⁵⁰ Instead, the Commission applies a three-factor test. When approving a unanimous settlement, the Commission must make an independent finding as to whether the

⁴⁵ Orr Settlement Testimony, p. 5.

⁴⁶ *Id.*, p. 7.

⁴⁷ *Id.*, p. 8.

⁴⁸ Transcript of Hearing (Tr.), Aug. 4, 2022, p. 3.

⁴⁹ Joint Motion to Amend the Settlement Agreement, Aug. 5, 2022, ¶ 3.

⁵⁰ See *Order on KCP&L's Application for Rate Change*, Docket No. 15-KCPE-116-RTS, Sept. 10, 2015. The five factor test was developed for non-unanimous settlements. Because this settlement is unanimous, the commission will only apply the three factor test.

settlement: (1) is supported by substantial competent evidence in the record as a whole, (2) will establish just and reasonable rates, and (3) is in the public interest.

17. Substantial competent evidence possesses something of substance and relevant consequence, which furnishes a substantial basis of fact to reasonably resolve the issues.⁵¹ Whether another trier of fact could have reached a different conclusion given the same facts is irrelevant; a Commission decision lacks substantial competent evidence when the Commission's determination "is so wide of the mark as to be outside the realm of fair debate."⁵²

18. The Settlement is supported by substantial competent evidence. In addition to the testimony in support of the settlement filed by Buchanan, Grady, and Orr, KGS supported its Application by three witnesses who filed extensive Direct and Rebuttal Testimony.⁵³ Staff and CURB performed independent reviews of the settlement and its associated documents to ensure they conform to securitization statutes.⁵⁴ Following their independent reviews, Staff and CURB each filed Direct Testimony. There is substantial and uncontroverted evidence showing that the issuance of securitized bonds to recover the QECs is expected to provide net quantifiable rate benefits to customers, estimated in the range of \$35 to \$46 million.⁵⁵

19. Buchanan, Orr, and Grady all testified that the Settlement will establish just and reasonable rates.⁵⁶ Grady explained the Settlement does not change rates right now, but sets forth a plan for KGS to file for Securitized Bonds to recover its extraordinary costs over an extended period, thus keeping customer rates affordable, and financing rates low.⁵⁷ As Grady articulates, Staff has independently validated the net quantifiable rate benefits to customers from using

⁵¹ *Farmland Indus., Inc. v. Kansas Corp. Comm'n.*, 25 Kan.App.2d 849, 852 (1999).

⁵² *Id.* at 851, 856.

⁵³ Grady Settlement Testimony, p. 15.

⁵⁴ Orr Settlement Testimony, p. 11.

⁵⁵ Buchanan Settlement Testimony, p. 20.

⁵⁶ *Id.*, p. 21; Orr Settlement Testimony, pp. 11-12; Grady Settlement Testimony, pp. 16-17.

⁵⁷ Grady Settlement Testimony, p. 16.

securitized ratepayer backed bonds as opposed to traditional methods of rate recovery.⁵⁸ Even with rising U.S. Treasury rates, Grady believes the issuance of securitized bonds will result in \$35 to \$46 million in net present value benefits to customers.⁵⁹ Orr restates that if the Commission approves securitization, a residential customer's monthly bill impact is projected to be \$6.86 for a 7-year recovery or \$5.05 for a 10-year recovery versus an average residential monthly fixed charge of \$16.24 per month over three years and \$10.57 at five years under traditional-ratemaking.⁶⁰ Grady offers slightly different and more updated numbers -- residential customers would face an increased monthly bill of \$4.87 to \$6.42 for a period of seven to ten years if securitized bonds were issued versus \$9.04 a month over a five-year period, or \$13.90 a month if recovered over three years using traditional ratemaking.⁶¹ Under either set of calculations, residential customers will experience significantly lower rates if securitized bonds are issued. Buchanan adds the fixed monthly securitization utility tariff charge and the periodic adjustment, or true-up changes to that charge, will assist in establishing the highest possible bond rating for the securitized bonds, producing the lowest overall cost to KGS' customers.⁶² For all of these reasons, the Commission agrees that the Settlement will result in just and reasonable rates.

20. Generally, the public interest is served when ratepayers are protected from unnecessarily high prices, discriminatory prices and/or unreliable service.⁶³ Buchanan, Orr, and Grady all testified that the Settlement is in the public interest.⁶⁴ Buchanan explains the Settlement will result in net quantifiable benefits to customers of \$35 to \$46 million and reduce the rate impact

⁵⁸ Grady Settlement Testimony, p. 16.

⁵⁹ *Id.*

⁶⁰ Orr Settlement Testimony, pp. 11-12.

⁶¹ Grady Settlement Testimony, p. 16.

⁶² Buchanan Settlement Testimony, p. 21.

⁶³ Grady Settlement Testimony, p. 18.

⁶⁴ Buchanan Settlement Testimony, pp. 21-22; Orr Settlement Testimony, pp. 12-13; Grady Settlement Testimony, pp. 18-19.

of Winter Storm Uri to customers.⁶⁵ Orr agrees that the Settlement will allow KGS to recover prudently incurred costs, while minimizing customer bill impacts.⁶⁶ In addition to echoing KGS' and CURB's testimony that the securitization process will result in savings to customers compared to traditional ratemaking methods, producing estimated quantifiable net present value rate benefits of \$35-\$46 million and lower monthly bills,⁶⁷ Grady notes the Settlement has the added benefit of avoiding costly and time-consuming litigation.⁶⁸ Allowing KGS to issue Securitized Bonds as quickly as possible to take advantage of current low rates is in the public interest as it will reduce the overall costs to ratepayers.⁶⁹

21. Consistent with the parties' positions, the Commission finds that approval of the Settlement Agreement is in the public interest. The terms of the Settlement Agreement represent an equitable balancing of the interests of all parties, and the public interest is upheld by minimizing the cost of litigation that would be passed on to ratepayers.⁷⁰

22. The Commission finds the attached Settlement Agreement is supported by substantial competent evidence in the record as a whole, results in just and reasonable rates, and is in the public interest. Thus, the Commission approves the Settlement Agreement in its entirety.

THEREFORE, THE COMMISSION ORDERS:

A. The Joint Motion to Approve the Settlement Agreement is granted. The Settlement Agreement, attached as Attachment A, is approved in its entirety and incorporated by reference.

B. The proposed Financing Order, including its appendices, as amended on August 5, 2022, is approved and will be issued in a separate Financing Order.

⁶⁵ Buchanan Settlement Testimony, p. 22.

⁶⁶ Orr Settlement Testimony, p. 12.

⁶⁷ Grady Settlement Testimony, p. 18.

⁶⁸ *Id.*, p. 19.

⁶⁹ *See* Tr., p. 55.

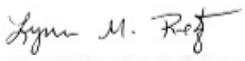
⁷⁰ Grady Settlement Testimony, p. 19.

C. Any party may file for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).⁷¹

BY THE COMMISSION IT IS SO ORDERED.

Keen, Chair; Duffy, Commissioner; French, Commissioner

Dated: 08/18/2022



Lynn M. Retz
Executive Director

BGF

⁷¹ K.S.A. 77-503(c); K.S.A. 77-531(b).

EXHIBIT A

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 the Recovery of Qualified) Docket No. 22-KGSG-466-TAR
Extraordinary Costs and Issuance of a Financing Order.)

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into between and among Kansas Gas Service Company, a Division of ONE Gas, Inc. ("Kansas Gas Service" or "Company"), the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission," respectively), and the Citizens Utility Ratepayer Board ("CURB") (collectively "Joint Movants"). This Agreement is being submitted to the Commission for approval pursuant to K.A.R. 82-1-230a¹ and the Commission's Order Granting Staff's Motion for a Procedural Schedule issued on April 28, 2022.²

I. INTRODUCTION

1. On March 31, 2022, in accordance with the financial plan approved by the Commission in Docket No. 21-KGSG-332-GIG ("21-332 Docket") by Order dated February 8, 2022 ("Financial Plan Settlement Order"), Kansas Gas Service filed an application for a Financing Order per the provisions set forth in the 2021 Utility Financing and Securitization Act (the "Act")³ seeking authorization to issue Securitized Utility Tariff Bonds to finance the Qualified Extraordinary Costs incurred as a result of the February 2021 Winter Storm Uri Event ("Winter Event").⁴

¹K.A.R. 82-1-230a.

²Order Granting Staff's Motion for Procedural Schedule issued April 28, 2022, Docket No. 22-KGSG-466-TAR ("22-466 Docket"), page 1, paragraph 1.

³K.S.A. 66-1,240, *et seq.*

⁴Application of Kansas Gas Service for Financing Order for Recovery of Securitized Utility Tariff Cost and Financing Costs filed March 31, 2022, 22-466 Docket ("Application").

2. In accordance with the Act, Kansas Gas Service submitted the direct testimony and exhibits of Janet L. Buchanan, Mark W. Smith and Charles N. Atkins II, to support its application.⁵ The Company's application covered each of the filing requirements under the Act.⁶ It also provided a description of the proposed securitization process, and drafts of the proposed securitization financing transaction documents and a proposed Financing Order. Kansas Gas Service also provided updated testimony and exhibits in support of its application.⁷

3. On April 5, 2022, CURB filed a petition to intervene, which was granted by the Commission by Order dated April 14, 2022.⁸

4. On April 18, 2022, Staff filed a motion to establish a procedural schedule in this docket. On April 28, 2022, the Commission issued an Order Granting Staff's Motion for Procedural Schedule ("Procedural Order").⁹

5. Per the Procedural Order, the Joint Movants participated in several technical conferences to discuss the proposed Financing Order, the securitization process, the draft transactional documents and other issues relating to the Company's Application.¹⁰

6. On June 17, 2022, Staff and CURB filed their testimony and exhibits. Staff proposed

⁵*Id.* (attachments to Application); Application, pages 7-9, paragraphs 16-19.

⁶Application, pages 9-19, paragraphs 20-50.

⁷Application, Proposed Financing Order; Supplemental Testimony of Mark W. Smith, 22-466 Docket filed May 5, 2022; Updated Testimony of Janet Buchanan, 22-466 Docket filed June 3, 2022; Updated Testimony of Mark W. Smith, 22-466 Docket filed June 3, 2022.

⁸CURB's Petition to Intervene, 22-466 Docket filed April 5, 2022; Order Granting CURB's Petition to Intervene, 22-466 Docket issued April 14, 2022.

⁹Staff's Motion to Establish Procedural Schedule, 22-466 Docket filed April 18, 2022; Order Granting Staff's Motion for Procedural Order, 22-466 Docket issued April 28, 2022.

¹⁰*Id.*

several modifications to the proposed Financing Order, securitization process and draft transactional documents. CURB raised a number of issues relating to the Company's Application.¹¹

7. On July 1, 2022, Kansas Gas Service filed its rebuttal and responsive testimony, which addressed each of the matters raised by Staff and CURB.¹²

8. Per the Procedural Order, the Joint Movants conducted a settlement conference on July 11, 2022.¹³ As a result of that conference, the Joint Movants reached this Agreement. The Joint Movants plan to file testimony in support of this Agreement per the Procedural Order.

9. The Joint Movants state that this Agreement represents a reasonable and fair resolution of all issues relating to Kansas Gas Service's request for a Financing Order and that the terms contained herein are in the public interest. CURB is a signatory to this Agreement. However, as set forth below, while CURB has decided not to oppose the Securitized Utility Tariff Charge (Winter Event Securitized Cost Recovery Rider) being recovered from customers based upon a fixed monthly charge and would have preferred that said charge be recovered using a volumetric charge for the reasons set forth in its testimony, CURB supports the overall benefits to customers provided by the securitization process and agrees this Agreement is in the public interest and should be approved by the Commission.

¹¹Direct Testimony of Justin Grady, 22-466 Docket filed June 17, 2022; Testimony of Patrick Orr on behalf of CURB, 22-466 Docket filed June 17, 2022.

¹²Atkins Rebuttal and Responsive Testimony, 22-466 Docket filed July 1, 2022; Buchanan Rebuttal and Responsive Testimony, 22-466 Docket filed July 1, 2022; Smith Rebuttal and Responsive Testimony, 22-466 Docket filed July 1, 2022.

¹³See Footnote 2.

II. SETTLEMENT PROVISIONS

10. Recovery of Qualified Extraordinary Costs ("QECs"). Kansas Gas Service is authorized to recover an estimated \$328,043,946 in QECs, through the issuance of securitized customer backed bonds, as authorized by the Act. The final amount shall be provided in the final Issuance Advice Letter.

11. Recovery of QECs Attributable to the Sales Service for Resale (SSR) Class. Kansas Gas Service is authorized to recover QECs attributable to the SSR class per a separate rider through traditional ratemaking means over five years in an amount of \$220,133. based upon a volumetric charge in order to more equitably recognize the heterogeneity of the customers represented by this class. The volumetric rate shall be set at \$0.77 per Mcf to be billed until the total is collected which is targeted to be five years.

12. Net Quantified Rate Benefits to Customers. Joint Movants agree that the issuance of securitized bonds to recover the QECs from the Winter Event is expected to provide net quantifiable rate benefits to customers, estimated in the range of \$35 to \$46 million based on the most recent Kansas Gas Service estimates of securitized bond interest rates from seven to ten years as compared to recovering the QECs using traditional ratemaking methods. Despite significant increases in United States ("US") Treasury rates since the Company filed its application, there is still a significant benefit to Kansas Gas Service's customers from issuing securitized bonds to finance the Winter Event's costs over ten years instead of using traditional ratemaking methods to collect these costs. The final net quantifiable benefit for customers shall be provided in the final Issuance Advice Letter.

13. Pre-Issuance Review Process; Role of the Commission's Designated Representative.

In order to ensure that the securitization process results in the "lowest securitized utility tariff charges, consistent with market conditions ...", Joint Movants agree on a comprehensive collaborative process where the Commission's Designated Representative, including its legal and investment advisors, shall have all authority to observe, review, confer, and consult with Kansas Gas Service and its underwriters on all facets of the securitization process, including but not limited to input into the material terms relating to the structuring, marketing, pricing and issuance of the securitized bonds. Kansas Gas Service, as the sponsor of the issuer of the securitized bonds, and the structuring underwriter, shall lead the securitization transaction rating agency and potential investor discussions, as well as the final structuring, marketing and pricing process, provided that such is consistent with: (1) the terms of the Financing Order approved by the Commission; (2) the collaborative process with the Commission's Designated Representative; and (3) the primary focus being in pursuit of the lowest cost statutory objective. The Designated Representative, including its legal and investment banking advisors, shall be allowed to listen in on meetings with investors or ratings agencies, but shall not be allowed to speak or otherwise take an active role in such meetings.

14. Term Length of Bonds. Joint Movants agree that Kansas Gas Service shall be allowed to issue securitized bonds with a scheduled final maturity of between seven to ten years, subject to the pre-issue review process set forth herein and the provisions contained in this paragraph of the Agreement. Joint Movants recognize that some flexibility on the maximum ten-year bond term must be provided in the event that the ratings agencies require a change in order to rate the securitized bonds as AAA. Joint Movants also recognize that the final legal maturity of the securitized bonds will be longer, while it is expected to be two years longer, it may be longer or

shorter depending on rating agency discussions and market conditions, than the scheduled final maturity. This flexibility has been included in the proposed Financing Order that has been agreed to by the Joint Movants, which is attached to this Agreement as Appendix A, and incorporated herein by reference.

15. Approval of Proposed Financing Order. Joint Movants request that the Commission approve and issue the proposed Financing Order, and appendices thereto, that is attached to this Agreement as Appendix A. The proposed Financing Order has been agreed to by the Joint Movants. In addition to approving the securitization process and covering all of the requirements contained in the Act, the proposed Financing Order is consistent with the terms that have been agreed to by the Joint Movants in this Agreement.

16. Proposed Transaction Documents. Joint Movants request that the Commission approve the following proposed transaction documents, as to form, that are attached to either the proposed Financing Order or this Agreement, and which have been agreed upon by Joint Movants, subject to any changes that may be made or required during the securitization process, (including review by the Commission's Designated Representative (and its legal and investment banking advisors) as provided in the proposed Financing Order), and provided that such changes are not materially contrary to the provisions of this Agreement or the proposed Financing Order:

- (A) Securitized Utility Tariff Property Servicing Agreement (Appendix D to the Proposed Financing Order);
- (B) Administration Agreement (Appendix G to the Proposed Financing Order);
- (C) The SPE Amended and Restated Limited Liability Company Agreement (Appendix I to the Proposed Financing Order);
- (D) Securitized Utility Tariff Property Purchase and Sale Agreement (Appendix E

to the Proposed Financing Order); and

(E) Indenture (Appendix H to the Proposed Financing Order).

Final versions of the transaction documents will be filed with the Commission in the subsequent compliance docket that will be opened by the Commission to receive the filings required under the Winter Event Securitized Cost Recovery Rider (“WESCR”) tariff.

17. Winter Event Securitized Cost Recovery Rider Tariff. The WESCR tariff submitted by Kansas Gas Service shall be approved. The parties acknowledge that in CURB's pre-filed testimony, CURB stated its preference that the costs associated with the Winter Event be collected using a volumetric charge instead of a fixed charge for the reasons set forth in that testimony. Indeed, CURB consistently has sought to minimize fixed charges in utility rate cases. However, in this particular case, CURB does not oppose a fixed monthly WESCR charge in the tariff. The Company and Staff agree that the tariff is reasonable in that it will assist in the establishment of the highest possible bond ratings for the securitized bonds and will allow customers to budget with certainty what their costs will be associated with the Winter Event. Therefore, CURB is a signatory to this Agreement, but is not acquiescing its position with respect to its argument for low fixed charges in all other cases, including future rate cases. The Joint Movants agree to the allocation of the Winter Event costs between the customer classes as reflected in the WESCR tariff submitted by Kansas Gas Service. The allocation methodology used by Kansas Gas Service fairly and reasonably estimates how the Winter Event costs were incurred by the Company to provide gas service to each customer class.

The Joint Movants also agree to the semi-annual (if not needed more frequently) true-up adjustment mechanism as set forth in the WESCR tariff submitted by Kansas Gas Service. This mechanism will assist in the establishment of the highest possible bond ratings for the securitized

bonds, and therefore, it is worth whatever administrative burden will result as compared to an annual true-up.

18. Settlement Fee To Be Charged to any Sales Customer That Switches to Transportation Service During the Term of the WESCR Tariff. Joint Movants agree that the settlement fee recommended by Kansas Gas Service to be charged to any sales customer that wants to switch to transportation service during the term of the WESCR tariff is reasonable and should be approved by the Commission. As proposed by Staff, the settlement fee shall be calculated as the net present value of the remaining customer obligations to pay for the WESCR, using a discount rate equal to the weighted average interest rate of the securitized bonds.

19. Reconciliation Process. Joint Movants agree to the reconciliation process described by the Company in Ms. Buchanan's testimony, whereby the final amount of QECs is compared to the final amount of securitized bond issuance, and the difference is credited/charged to customers through the Cost of Gas Rider ("COGR") process. If the incremental cost to Kansas Gas Service to perform its servicing and administrative services under the Servicing Agreement and the Administration Agreement, respectively, is less than what the Company is paid for those services, then that difference in cost (the associated profit margin earned by the Company as servicer and administrator) shall be tracked by Kansas Gas Service and included in a regulatory liability account to be addressed in Kansas Gas Service's next general rate case.

20. Treatment of Investment Earnings on the Capital Sub Account. Joint Movants agree that pursuant to K.S.A. 66-1,241(e)(14), Kansas Gas Service shall be allowed to earn a return on its equity contribution to the Capital Sub Account equal to "the cost of capital authorized from time to time by the Commission in the public utility's rate proceedings", which is the Company's approved weighted average cost of capital ("WACC"), and which will be distributed upon receipt. Kansas Gas

Service's current WACC is 8.6012%. In accordance with the applicable provisions of the Indenture, investment earnings on the Capital Subaccount will be transferred to the Excess Funds Subaccount. On each payment date, the funds in such Subaccount will be taken into account in the Adjustment Mechanism within the WESCR tariff and will benefit KGS customers.

21. Customer Education Program. Joint Movants agree on the customer communication plan presented by the Company to inform and educate Kansas Gas Service's customers about the purpose for, and the benefits of, the issuance of securitized bonds. Joint Movants agree to work together to finalize the specifics relating to the customer education program.

22. Waiver of General Terms and Conditions. Joint Movants agree that the Commission should approve the Company's request to waive Section 4.01.02 of its General Terms and Conditions in order to allow the payment of securitized bonds to take priority over the rest of the customer bill in the event of partial customer payment. This waiver is supportive of the highest bond ratings possible for the securitized bonds, and therefore a benefit to customers.

23. Controlling Document. To the extent that any of the terms contained in this Agreement conflict with the terms contained in the proposed Financing Order attached to this Agreement, the terms in the Financing Order shall control.

24. Study of Residential Class. Joint Movants agree that Kansas Gas Service will study whether its residential customer class would benefit by being separated into multiple subclasses similar to the rate choice options approved for Oklahoma Natural Gas, a division of ONE Gas, Inc. Kansas Gas Service will present the results of this study during Kansas Gas Service's next general rate proceeding. In addition, and provided that Kansas legislation has been enacted authorizing the Commission to approve a low-income relief (or similar) tariff, the Joint Movants will work with each other to determine whether, and to what extent, a generic investigation into the

energy burden in Kansas could be conducted to benefit the Commission in its regulation of rates, including determining whether low-income rate relief is feasible and ways in which the same could be structured.

25. Miscellaneous Provisions.

(a) Nothing in this Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation, including the obligation to ensure that Kansas Gas Service is providing efficient and sufficient service at just and reasonable rates.

(b) The Joint Movants shall have the right to present prefiled testimony in support of this Agreement. Such testimony shall be filed formally in the docket and presented by witnesses at a hearing on this Agreement. Such testimony shall be filed as required by the procedural schedule, or any modification to the procedural schedule filed in this docket.

(c) This Agreement represents a negotiated settlement that fully resolves all of the issues in this docket among the Joint Movants. The Joint Movants represent that the terms of this Agreement constitute a fair and reasonable resolution of the issues addressed herein. Except as specified herein, the Joint Movants shall not be prejudiced, bound by, or in any way affected by the terms of this Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and (c) in this proceeding should the Commission decide not to approve this Agreement in the instant proceeding. If the Commission accepts this Agreement in its entirety and incorporates the same into a final order without material modification, the Joint Movants shall be bound by its terms and the Commission's order incorporating its terms as to all issues addressed herein, and will not appeal the Commission's order on these issues provided that Commission approval of this

Agreement shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding.

(d) The provisions of this Agreement have resulted from negotiations among the Joint Movants and are interdependent. In the event that the Commission does not approve and adopt the terms of this Agreement in total, the Agreement shall be voidable and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof. Further, in such event, this Agreement shall be considered privileged and not admissible in evidence or made a part of the record in any proceeding.

(e) To the extent this Agreement provides for information, documents or other data to be furnished to the Commission or Staff, such information, documents or data shall be filed with the Commission and a copy served upon the Commission's Director of Utilities. Such information, documents, or data shall be marked and identified with the docket number of this proceeding.

IN WITNESS WHEREOF, the Joint Movants have executed and approved this Stipulated Settlement Agreement, effective as of the 14th day of July, 2022, by subscribing their signatures below.

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CERTIFICATE OF SERVICE

22-KGSG-466-TAR

I, the undersigned, certify that a true copy of the attached Order has been served to the following by means of electronic service on 08/18/2022.

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