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PROPONENT TESTIMONY
Substitute for SB 245 - securitization of extraordinary fuel cost.
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Kansas Gas Service
Senate Committee Financial Institutions and Insurance
March 17, 2021

Kansas Gas Service, a division of ONE Gas, Inc., is the state's largest regulated natural gas utility serving more than 635,000 residential, commercial and industrial customers in 341 communities across Kansas.

Throughout the recent extreme weather event, our employees worked around the clock to make sure that our customers continued to receive service. Due to the tireless effort of so many, conservation efforts by customers and prior infrastructure investment, Kansas Gas Service was able to maintain service to its customers with minimal outages.

While the immediate threat of the storm is over, Kansas Gas Service continues to work with the Kansas Corporation Commission (KCC) on options to mitigate the financial implications for our customers related to the substantial increase in gas commodity prices experienced during the extreme weather event. The KCC has issued an order that authorizes natural gas and electric utilities to defer any extraordinary costs incurred associated with ensuring that customers continued to receive service during the cold weather event. Kansas Gas Service will make a filing with the KCC which includes a plan to minimize the financial impact on customers over a reasonable period of time.

As a reminder, by law, Kansas Gas Service makes no profit on the cost of gas. The cost Kansas Gas Service pays for its gas supply is simply a pass through to customers without markup. Our supply portfolio consists of diversified market-based pricing, over various terms, for storage, short-term, long-term and spot purchases. Due to the historically low temperatures that remained below freezing over an extended period of time, we experienced much higher natural gas demand at a time when there was an unforeseeable significant increase in natural gas market prices on a portion of the supply purchased during this period.

Ordinarily, the cost of gas is recovered from our customers the month following use, as directed by our tariffs approved by the KCC. As mentioned, Kansas Gas Service is working with the KCC to extend the recovery period for these extraordinary cost in order to reduce the impact to customers. Securitization, as envisioned in Substitute for SB 245, presents an alternative way to facilitate the recovery of these costs that could further reduce the bill impact to customers. Attached, is a summary of the components and benefits of securitization for costs such as these.

Substitute for SB 245 would expand the scope of the legislation by giving the KCC the authority to oversee and authorize the issuance of ratepayer-backed securitized bonds to finance extraordinary fuel costs incurred during the extreme weather event. The fuel costs considered here are already being financed by Kansas Gas Service and are recoverable from customers. Substitute for SB 245

would provide “least cost” financing compared with other forms of utility borrowing resulting in meaningful savings to customers.

Actual cost from the storm have not fully settled. Based upon current approximations and assumptions, Kansas Gas Service believes meaningful savings can be provided with the passage of Substitute for SB 245.

Kansas Gas Service has run the following hypotheticals to demonstrate the estimated savings from securitization of extraordinary costs.

Estimate of Extraordinary Costs - February 2021 Winter Event	\$420,000,000
Hypothetical 3-year traditional payback total revenue requirement	\$502,000,000
Average additional cost per MCF	\$3.18
Average annual cost per residential customer	\$226
Total cost per residential customer over 3 years	\$678
Hypothetical 5-year traditional payback total revenue requirement	
Average additional cost per MCF	\$2.05
Average annual cost per residential customer	\$145
Total cost per residential customer over 5 years	\$727
Hypothetical 5-year securitization payback total revenue requirement	
Average additional cost per MCF	\$1.71
Average annual cost per customer	\$122
Total cost per residential customer over 5 years	\$609

In total, Kansas Gas Service estimates that the savings for its Kansas customers from securitization is between \$50 to \$90 million over the life of the obligation. This is meaningful cost avoidance for our customers.

We applaud your efforts to help some Kansans with the recent passage of House Substitute for SB 88 which provides low cost loans from the State to cities for extraordinary electric or natural gas costs incurred during this same extreme winter weather event. This effort will provide immediate avoidance of catastrophic consequences for cities and customers of municipal-owned utilities.

Investor owned utilities and their customers are in a different position. As mentioned, Kansas Gas Service has secured financing for the cost of gas incurred during the extreme weather event and has deferred those cost from customer bills as directed by the KCC. Kansas Gas Service does not need a loan from the State. Rather, Kansas Gas Service does respectfully request authorization to pursue lower cost financing in the private markets through securitization as laid out in Substitute for SB 245.

Thank you for your time and attention to this very important matter.

ATTACHMENT

Components of Securitization

- The state legislation authorizes the utility to finance the recovery of certain costs through the issuance of securitization bonds.
- The state pledges that it will not interfere with the utility's right to recover the amounts to service the securitization bonds.
- The commission issues a financing order pursuant to the state legislation which creates the right to impose certain charges on utility's customers. (A separate line on the bill to recover the extraordinary gas costs, other cost associated with the winter storm, and the costs to issue the bonds.)
- The financing order is irrevocable by future commissions and the commission pledges to protect bondholders by not taking action to affect the value of the asset until it is fully paid.
- The company creates a bankruptcy-remote, special-purpose entity to issue the securitization bonds.
- A prefunded reserve account is held by the special purpose entity for further protection for bondholders in the event there is deficiency between rates and the fee collected from customers.
- Since the financing is 100% debt, higher returns associated with equity and corporate income taxes are avoided. Note: There is still some tax leakage that the company will face.
- The state legislation specifically provides that the charges are subject to adjustment to ensure the collection of adequate funds to provide for timely payments on the securitization bonds.
- The bonds are issued by a third party and the proceeds from the bonds repay the utility for its gas costs, other related storm costs and the cost of the bonds upfront.
- The utility's investment (the approved securitization project) is not added to rate base and customers are not responsible for paying the company's cost of capital and the associated corporate income taxes imposed on the company.

Benefits of Securitization

- It reduces the "rate shock" of temporary surcharges.
- Provides "least cost" financing compared with other forms of utility borrowing. Markets, not regulators, determine the real price of money; private investors acting from market signals, not customers initially, provide capital.
- Securitization creates a relatively lower cost to the utility's customers when compared to other forms of utility cost recovery measures.
- This is not a new concept for utilities. Other states have approved utility securitization to cover costs related to extraordinary events such as hurricanes.
- Keeps the utility from issuing equity for a short-term issue that may not be needed for long-term financing structure.
- The securitized utility tariff bonds have a true-up mechanism so that consumer charges can be adjusted up or down.
- True up of regulatory costs are reduced to simple mathematical calculations.
- Prevents the utility from incurring large amounts of debt that would have a negative impact on the utility's cost of capital.
- Specific statutory authority removes uncertainty about an intangible asset and reduces regulatory uncertainty in commission processes.