

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 APPROVAL OF AN ) Docket No. 17-KGSG-455-ACT**  
**ACCOUNTING ORDER TO TRACK EXPENSES )**  
**ASSOCIATED WITH THE INVESTIGATING, )**  
**TESTING, MONITORING, REMEDIATING )**  
**AND OTHER WORK PERFORMED AT THE )**  
**MANUFACTURED GAS PLANT SITES MANAGED )**  
**BY KANSAS GAS SERVICE )**

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

KANSAS CITIZENS' UTILITY RATEPAYER BOARD

September 18, 2017

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

2 A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard,  
3 #401, Ft. Lauderdale, FL 33306.

4  
5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes, on September 8, 2017, I filed Direct Testimony on behalf of the Citizen’s Utility  
7 Ratepayer Board (“CURB”). In that testimony, I recommended that the Kansas Corporation  
8 (“KCC” or “Commission”) reject the request by Kansas Gas Service (“KGS”) to defer costs  
9 incurred after January 1, 2017 relating to the investigation, testing, monitoring, and  
10 environmental remediation of twelve Manufactured Gas Plant (“MGP”) sites used in the past  
11 to manufacture gas. In my Direct Testimony, I recommended that these costs be paid by the  
12 Company’s shareholders, rather than its regulated ratepayers. I also recommended that if the  
13 KCC finds that some portion of remediation costs should be recovered from ratepayers, then  
14 any deferral should be limited to 50% of actual remediation costs. I also recommended that  
15 the allocation of insurance proceeds generally follow the allocation of remediation costs.  
16 Finally, I recommended that if the KCC authorizes the Company to defer certain costs, the  
17 ratemaking treatment of any such deferral should be addressed in a future rate case, after the  
18 actual level and nature of the expenditures are known and can be reviewed by the parties.

19

20 **Q. What is the purpose of your Cross-Answering Testimony?**

1 A. The purpose of my Cross-Answering Testimony is to respond to the testimony filed by the  
2 KCC Staff.

3  
4 **Q. Please briefly summarize the testimony filed by the KCC Staff.**

5 A. The KCC Staff filed the testimony of Justin T. Grady, William E. Baldry, and Leo M. Haynos.  
6 The KCC Staff recommends that the KCC deny the Company’s request to establish an  
7 accounting order in this case relating to remediation costs incurred after January 1, 2017.  
8 Instead, the KCC Staff recommends that the KCC require the Company to file separate site-  
9 specific Applications for Accounting Order (“AAO”) for any future environmental  
10 remediation activities that exceed \$1,000,000 per site.<sup>1</sup> Staff also recommends that the KCC  
11 identify the information that should be included in future AAO filings and establish the  
12 ratemaking treatment for future remediation costs that are recovered from ratepayers.

13  
14 **Q. What ratemaking treatment does the KCC Staff recommend for future remediation  
15 costs?**

16 A. As discussed on page 13 of Mr. Grady’s testimony, the KCC Staff identifies three distinct  
17 tranches of MGP remediation costs: 1) \$1.4 million associated with the remaining  
18 environmental liability reserve established at the time that ONEOK acquired the gas assets in  
19 1997, 2) \$4.5 million of expenditures associated with the additions to the environmental

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<sup>1</sup> Testimony of Mr. Grady, page 3.

1 reserve booked in 2016, and 3) future unquantifiable cash expenditures. The KCC Staff  
2 recommends that the KCC deny the Company's request to defer costs associated with all three  
3 of these tranches.

4 The KCC Staff recommends that the KCC deny the Company's request to recover any  
5 costs associated with the original environmental liability or the reserve additions made in  
6 2016. With regard to future unquantifiable MGP costs, the KCC Staff recommends that the  
7 KCC require site-specific AAO requests for each MGP site with expected additional  
8 expenditures exceeding \$1,000,000. Moreover, the KCC Staff recommends that the  
9 "Commission establish a regulatory framework which allows KGS to recover 60% of the  
10 nominal value of any MGP costs which are found to have been prudently incurred."<sup>2</sup> The  
11 KCC Staff recommends that these costs be amortized over a ten-year period, with carrying  
12 costs at the Company's weighted average cost of capital. With regard to remediation costs  
13 that do not meet the \$1,000,000 threshold but which are requested as part of any general rate  
14 case filing, the KCC Staff recommends the same 60% recovery "of any amount that the  
15 Commission determines is representative of ongoing, normalize operations."<sup>3</sup> KCC Staff also  
16 supports synchronizing the treatment of future insurance proceeds with the ratemaking  
17 treatment afforded to future remediation costs.

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2 Id., page 29.

3 Id, page 30.

1 **Q. Do you agree with the recommendations presented in KCC Staff’s testimony?**

2 A. No, I do not. As noted in my Direct Testimony, I recommend that shareholders, and not  
3 ratepayers, be responsible for these costs. However, even if the KCC determines that  
4 ratepayers should be responsible for a portion of these costs, I recommend that two elements  
5 to KCC Staff’s proposal be modified.

6 The KCC Staff acknowledges that there is a great deal of uncertainty regarding future  
7 remediation costs. As a result, the KCC Staff recommends that the Company be required to  
8 file separate AAO requests for expenditures anticipated to exceed \$1,000,000 per site.  
9 However, the KCC Staff also outlines the specific ratemaking treatment that should be  
10 afforded to prudently deferred costs. I believe that specifying any particular ratemaking  
11 treatment at this time is premature. In addition, I take exception to the specific percentage  
12 allocation recommended by the KCC Staff.

13

14 **Q. Why do you believe that it is premature to specify a ratemaking treatment at this time?**

15 A. The KCC Staff recommends that separate AAO requests be filed, but is proposing a  
16 ratemaking treatment prior to these requests even being filed, let alone approved. This is  
17 clearly a case of “putting the cart before the horse.” Moreover, as acknowledged by Mr.  
18 Grady, there is significant uncertainty regarding the types of remediation activities that will be  
19 required and the magnitude of the associated costs. I do not believe that the KCC should  
20 authorize a ratemaking treatment for costs that have not yet been incurred and for which there

1 is so much uncertainty. Instead, even if recovery is ultimately authorized, the KCC should  
2 wait until it knows the magnitude of any costs prior to determining an appropriate ratemaking  
3 treatment. For example, while KCC Staff recommends a 10-year amortization period, a  
4 shorter or longer amortization period may be appropriate depending on the size of the deferral.  
5 KCC Staff's "one size fits all" approach may not be the most appropriate in all cases.  
6 Therefore, even if the KCC determines that a portion of remediation costs should be deferred,  
7 at this time the Commission should not specify what, if any, ratemaking treatment should be  
8 afforded to these costs.

9  
10 **Q. Do you agree with KCC Staff's recommendation that ratepayers should be responsible**  
11 **for 60% of any prudently-incurred deferred costs?**

12 A. No, as noted in my Direct Testimony, any deferred costs authorized by the KCC should be  
13 limited to no more than 50% of remediation costs, and not the 60% recommended by KCC  
14 Staff. There is no basis for a 60% allocation, except for the fact that it was the allocation  
15 approved by the KCC for Kansas Public Service ("KPS") in Docket No. 185,507-U.  
16 However, that case was resolved almost 25 years ago and there is nothing in the Order in that  
17 case that addresses why a 60% ratepayer / 40% shareholder allocation is reasonable. While  
18 there were many reasons discussed why shareholders should be responsible for at least a  
19 portion of remediation costs, no one has presented compelling arguments as to why the 60% /  
20 40% allocation is appropriate. Moreover, on page 16 of his testimony, Mr. Baldry discusses

1 several differences between this filing and the KPS case, but nevertheless KCC Staff relies  
2 upon the KCC Order in the KPS case to determine the sharing allocation. Given the fact that  
3 there is no quantitative analysis supporting the 60% allocation to ratepayers, I recommend that  
4 any ratepayer allocation be limited to no greater than 50%.

5 The responsibility for these costs should not fall more heavily on ratepayers than on  
6 shareholders. It was the predecessors of the company and its shareholders who were  
7 responsible for managing the company in the years when MGP sites were in use. It was also  
8 shareholders, not ratepayers who agreed to purchase these natural gas assets from Westar at a  
9 significant premium. Moreover, the cost of remediation (which could be very significant) can  
10 be borne by shareholders with substantially less hardship than by many residential and small  
11 commercial ratepayers. Therefore, even if the KCC finds that ratepayers should bear some  
12 responsibility for remediation costs, the responsibility should not exceed the responsibility  
13 allocated to shareholders. Accordingly, the Company should not be authorized to defer more  
14 than 50% of prudently-incurred remediation costs. In addition, as discussed above, the  
15 specific ratemaking treatment to be afforded these costs should not be addressed at this time  
16 but instead should be addressed once the magnitude of the costs is known and the parties have  
17 the ability to undertake a comprehensive review of these costs.

18  
19 **Q. Does this conclude your Cross-Answering Testimony?**

20 **A.** Yes, it does.