

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 Accounting Order to Track Expenses)
Associated with the Investigating, Testing,)
Monitoring, Remediating and Other)
Environmental Work Performed at the)
Manufactured Gas Plant Sites Managed By)
Kansas Gas Service.

Docket No. 17-KGSG-455-ACT

**RESPONSE OF KANSAS GAS SERVICE TO
STAFF'S REPORT AND RECOMMENDATION
AND REPLY TO CURB'S RESPONSE
TO STAFF'S REPORT AND RECOMMENDATION**

Kansas Gas Service, a division of ONE Gas, Inc. ("Kansas Gas Service") submits the following response to the Kansas Corporation Commission Staff's ("Staff") Report and Recommendation filed in the above-captioned docket on April 24, 2025 ("Staff R&R"), and its reply to the Citizens' Utility Ratepayer Board's ("CURB") response to the Staff R&R.

1. On January 3, 2025, Kansas Gas Service filed for approval to increase the \$15 million cap on the Accounting Authority Order ("AAO") approved by the Kansas Corporation Commission ("Commission") on November 21, 2017, in this docket. The AAO authorizes the accumulation, deferral and recovery of costs incurred after January 1, 2017, associated with Kansas Gas Service's ongoing obligation to perform environmental investigating, testing, monitoring, remediating and other work on 12 specific manufactured gas facilities ("MGP Sites").

2. Kansas Gas Service requested the Commission for permission to increase the cap on the AAO from \$15 million to \$32 million, which represents the most updated cost estimate for environmental work that Kansas Gas Service is performing at the MGP Sites under the direction and supervision of the Kansas Department of Health and Environment ("KDHE"). Kansas Gas

Service indicated that all other terms contained in the October 12, 2017, Unanimous Settlement Agreement with Staff and CURB would remain the same.

3. The AAO allows recovery of the deferred environmental costs over a 15-year period after being approved in a general rate case, without inclusion of those costs in rate base and without recovery of a return on the deferred costs. As pointed out in the Staff R&R, the absence of a return on these balances over such a long amortization period effectively results in a sharing of the environmental costs.

4. Staff's R&R was filed on April 25, 2025. Staff continues to support the recovery of the MGP environmental costs over a 15-year recovery period without the accumulation of a return or inclusion in rate base. Staff points out that this effectively results in a sharing of these costs (60% customers and 40% shareholders) and continues the Commission's policy that has existed since the Commission approved this rate treatment in the July 14, 1993, Order in the Kansas Public Service rate case, Docket No. 185,507-U ("185,507-U Docket"). Staff recommends the Commission approve Kansas Gas Service's request to increase the AAO cap for MGP environmental costs from \$15 million to \$32 million, with all of the other terms in the October 12, 2017, Unanimous Settlement Agreement remaining in place.

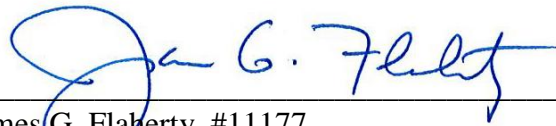
5. On May 8, 2025, CURB filed its response to Staff's R&R. CURB does not object to the increase in the cap, however, it recommends that the Commission change its policy to effectively change the sharing of the MGP environmental costs from 60%/40% to 50%/50%.

6. Kansas Gas Service agrees with the overall recommendation included in Staff's R&R and requests that the Commission adopt Staff's recommendation. However, Kansas Gas Service does not agree with CURB's recommendation that the Commission change its long standing policy to effectively change the cost sharing percentages.

7. As pointed out in Staff's R&R, after approval of the AAO, Kansas Gas Service has requested recovery of two tranches of MGP Costs. In Docket No. 18-KGSG-560-RTS, Kansas Gas Service requested that approximately \$1.5 million in MGP costs be amortized and recovered over 15 years. In Docket No. 24-KGSG-610-RTS, Kansas Gas Service requested that a second tranche of MGP costs totally approximately \$13.5 million be amortized and recovered over 15 years. Both requests were approved by the Commission. In both of those cases, if the time between when Kansas Gas Service incurred the MGP costs and when those costs were approved in those rate cases were added to the already "lengthy" 15-year amortization period, then the effective sharing of the MGP environmental costs are already closer to the 50% requested by CURB. In other words, under the current terms of the Settlement Agreement, and Staff's recommendation in this case, the effective sharing is already at the 50% proposed by CURB.

8. Exhibit KGS-1 attached to this response and reply shows the calculation of the effective cost sharing when adding the time in between when the MGP costs are incurred and when recovery begins under the 15-year amortization period. It shows the effective cost sharing is already at the 50% requested by CURB in its response.

WHEREFORE, Kansas Gas Service requests that the Commission issue an order approving Staff's recommendation in this docket.



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VERIFICATION

STATE OF KANSAS
COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being first duly sworn on oath, states: That he is an attorney for Kansas Gas Service, a division of ONE Gas, Inc., and is duly authorized to make this affidavit; that he has read the foregoing Response of Kansas Gas Service to Staff's Report and Recommendation and Reply to Curb's Response to Staff's Report and Recommendation, knows the contents thereof; and that the facts set forth therein are true and correct.



James G. Flaherty

SUBSCRIBED AND SWORN to before me this 8th day of May, 2025.



Notary Public

Appointment/Commission Expires:



CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail, this 8th day of May, 2025, addressed to:

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Line

No.

Analysis of Sharing Percentage with Updated Discount Rate

Exhibit KGS-1

1	Balance	\$13,500,000	Year No.	1	2	3	4	5	6	7	8	
2	Periods	17	Annual Amortization	\$ -	\$ -	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	
3	Rate	7.4583%	Discount Factor	1.07458	1.15473	1.24085	1.33340	1.43285	1.53971	1.65455	1.77795	
4	Pymts	\$ 900,000.00	Present Value	\$ -	\$ -	\$ 725,308	\$ 674,967	\$ 628,120	\$ 584,524	\$ 543,955	\$ 506,201	
5	PV	\$ 6,897,744										
			Year No.	9	10	11	12	13	14	15	16	17
			Annual Amortization	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000
6	Ratepayers %	51%	Discount Factor	1.91056	2.05305	2.20617	2.37072	2.54753	2.73753	2.94171	3.16111	3.39687
7	Shareholders %	49%	Present Value	\$ 471,067	\$ 438,372	\$ 407,946	\$ 379,632	\$ 353,283	\$ 328,763	\$ 305,945	\$ 284,710	\$ 264,949

KGS began amortizing the second tranche of MGP expenses in November, 2024 when new base rates became effective in Docket 24-KGSG-610-RTS. The \$13.5M currently being amortized over 15 years was spent by August 2022. Year 1 and Year 2 in this example represents the 2 years of lag between when all the dollars had been spent and when the amortization of the amounts began.