

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

APPLICATION TO INCREASE THE CAP PLACED ON ACCOUNTING AUTHORITY
ORDER

Kansas Gas Service, a division of ONE Gas, Inc. ("Kansas Gas Service" or "Company") (ONE Gas Inc., is referred to herein as "ONE Gas") seeks approval to increase the \$15 million cap on the accounting authority order approved by the Kansas Corporation Commission ("Commission") on November 21, 2017, in this docket ("AAO" or "17-455 Order"). The AAO authorizes the accumulation, deferral and recovery of costs incurred after January 1, 2017, associated with the Company's obligation to perform environmental investigating, testing, monitoring, remediating and other work on twelve (12) specific natural gas facilities used in the past to manufacture gas and the real property where those facilities were located, as well as nearby properties ("MGP Sites"), which are being managed by the Company ("Environmental Work" or "Environmental Performance"). The Environmental Work is being performed pursuant to (1) a Consent Order with the State of Kansas Department of Health and Environment ("KDHE"), which was issued in KDHE Case No. 94-E-0172, signed on October 7, 1994, by Kansas Gas Service's predecessor, Western Resources Inc. ("WRI") and several amendments thereto (collectively "KDHE

Consent Order")¹; and (2) Section II, A, paragraph 8 (K) of the Stipulation and Agreement approved by the Kansas Corporation Commission ("Commission" or "KCC") in Docket No. 97-WSRG-486-MER ("486 Docket") by Order dated October 15, 1997.² The request to increase the cap is made per paragraph 12 of the AAO³. Kansas Gas Service is seeking to increase the cap from \$15 million to \$32 million to cover the estimated increase in what are defined as MGP Costs in the AAO related to the Environmental Work at the MGP Sites managed by Kansas Gas Service under the KDHE Consent Order. In support of its Application, Kansas Gas Service states as follows:

I. INTRODUCTION

1. Kansas Gas Service is a natural gas public utility operating in the State of Kansas pursuant to certificates of convenience and necessity issued by the Commission. Kansas Gas Service's principal place of business within the state of Kansas is located at 7421 West 129th Street, Overland Park, Kansas 66213. Kansas Gas Service serves approximately 648,000 customers located in over 360 communities in Kansas.

2. The names, addresses, phone numbers and electronic mailing addresses of the persons authorized to receive notices and communications with respect to this Application on behalf of Kansas Gas Service are as follows:

Robert E. Vincent
Kansas Gas Service
A Division of ONE Gas, Inc.
7421 West 129th Street
Overland Park, Kansas 66213
(913) 319-8615

1 State of Kansas Department of Health and Environment Consent Order, Western Resources, Case No. 94-E-0172, mailed October 10, 1994, (KDHE Consent Order) See Exhibit JLB-1, attached to Janet L. Buchanan's Direct Testimony (Buchanan Testimony); See also, Exhibit JLB-2 and Exhibit JLB-3, Summary of Amendments to KDHE Consent Order and Amendments to KDHE Consent Order.

² Section II.A. paragraph 8 (K) of the Stipulation and Agreement stated in pertinent part as follows: "ONEOK will maintain the relative level of environmental performance practiced by WRI as of August 21, 1997...." *Stipulation and Agreement dated October 3, 1997, page 12, 486 Docket.*)

³ Order approving Unanimous Settlement Agreement, Docket No. 17-KGSG-455-ACT (17-455 Docket), dated November 21, 2017 (AAO or 17-455 Order), pages 5-6, paragraph 12; See, Exhibit JLB-6.

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II. BACKGROUND CONCERNING THE MANUFACTURING GAS INDUSTRY IN KANSAS AND THE MGP SITES MANAGED BY KGS

3. Ms. Emma Romi, a Remediation Section Manager within the Environmental Services Section at Burns and McDonnell, provides testimony and exhibits setting forth background information relating to the manufactured gas industry in Kansas. Attached to Ms. Romi's testimony as **Exhibit ELR-1**, is a paper authored by KDHE that provides a thorough review of the history of gas manufacturing plants in Kansas, the gas manufacturing process used at those plant sites, and the environmental legacy left by those gas manufacturing plants.⁴

4. Kansas Gas Service manages twelve (12) MGP Sites. Those MGP Sites are located in the following Kansas towns: Abilene, Atchison, Concordia, Emporia, Hutchinson, Junction City, Kansas City, Leavenworth, Manhattan, Parsons, Salina and Topeka. Most of these manufactured gas plants ("MGPs") began their operations in the late 1880s and ended their operations by 1930.⁵ Ownership of the MGPs can be traced back to the predecessors of Kansas

4 Direct Testimony of Emma Romi (Romi Testimony), page 3, Exhibit ELR-1.

5 Romi Testimony, page 3, Exhibit ELR-1, pages 1-2, 9-10.

Gas Service and Evergy. Kansas Gas Service owns the real property at seven of the twelve sites where the MGPs were once located. The real property at the other five sites is owned by third parties.

5. Included with the testimony of Ms. Romi as **Exhibit ELR-2** is a spread sheet that provides additional background information regarding each of the 12 MGP Sites. The spreadsheet identifies who owns the site, whether there are any existing buildings located on the sites, including any ONE Gas or Kansas Gas Service owned buildings, and what Environmental Work has been performed to date at each site per the 1994 KDHE Consent Order.⁶ Ms. Romi's **Exhibit ELR-4** is a spread sheet that shows the 36-month tentative schedule of Environmental Work to be performed at each MGP Site.⁷

6. Attached to Janet Buchanan's testimony in support of this Application as **Exhibit JLB-1**, is a copy of the 1994 KDHE Consent Order.⁸ The KDHE Consent Order outlines the Environmental Performance obligations at the MGP Sites agreed to by WRI.⁹ The KDHE Consent Order, at the time it was entered into pertained to MGP sites located in Hutchinson and Leavenworth, only.¹⁰ The purpose of the KDHE Consent Order was to develop effective response activities designed to determine the source, nature, extent and impact of MGP contamination by requiring WRI to perform certain activities set forth in the KDHE Consent Order.¹¹ The KDHE Consent Order allowed KDHE and WRI to add or delete other MGP sites to the order.¹² Ms. Buchanan's **Exhibit JLB-2** provides a timeline showing when various amendments were made to

6 Romi Testimony, Exhibit ELR-2.

7 Romi Testimony, Exhibit ELR-4.

8 Buchanan Testimony, Exhibit JLB-1.

9 Buchanan Testimony, Exhibit JLB-1, pages 1-2; Exhibit A.

10 Buchanan Testimony, Exhibit JLB-1, Exhibit A.

11 Buchanan Testimony, Exhibit JLB-1, pages 2-3.

12 Buchanan Testimony, Exhibit JLB-1, page 3.

the KDHE Consent Order.¹³ Her **Exhibit JLB-3** contains the amendments to the KDHE Consent Order.¹⁴

7. In the 486 Docket, the Commission required Kansas Gas Service to assume the Environmental Performance as practiced by WRI at the time WRI sold its Kansas natural gas business to ONEOK, Inc. in 1997.¹⁵ This included WRI's obligations under the KDHE Consent Order. Since the MGP Sites were historically used to provide natural gas service to customers, it was determined to be reasonable for them to be sold as part of the natural gas business and assumed by Kansas Gas Service. Based upon the testimony filed by Commission Staff ("Staff") witness Paul Dietz in the 486 Docket, the KDHE Consent Order covered five MGP Sites.¹⁶ However, Mr. Dietz indicated there were likely other sites to be covered by the KDHE Consent Order in the future.¹⁷ Mr. Dietz indicated that managing the MGP Sites would include "...extensive and ongoing projects which will require expertise and resources for many years."¹⁸ He recommended a requirement for Kansas Gas Service to work with KDHE in order to maintain the Environmental Performance practiced by WRI under the KDHE Consent Order.¹⁹ Mr. Dietz' recommendation was approved by the Commission and Kansas Gas Service became responsible for carrying out the requirements contained in the KDHE Consent Order.²⁰

8. The number of MGP Sites covered by the KDGE Consent Order has increased to a total of 12 sites since the Company was ordered to comply with that order. Kansas Gas Service

13 Buchanan Testimony, Exhibit JLB-2.

14 Buchanan Testimony, Exhibit JLB-3.

15 Buchanan Testimony, Exhibit JLB-4, Order Approving Stipulation and Agreement, Docket No. 97-WSRG-486-MER, (486 Docket) issued October 3, 1997, page 15, paragraph 35.

16 Buchanan Testimony, Exhibit JLB-4, Direct Testimony of Paul Dietz, 486 Docket, filed September 2, 1997, pages 7-10.

17 *Id.*

18 *Id.*

19 *Id.*

20 See footnote 15.

and KDHE continue to work under the KDHE Consent Order in a cooperative manner to schedule and prioritize the Environmental Work performed at the MGP Sites being managed by the Company. The scope of the Environmental Work performed (and expected to be performed in the future) continues to be refined as the investigative work (that has been conducted at the sites since 1997) is still ongoing.²¹

III. BACKGROUND ON ACCOUNTING AND REGULATORY TREATMENT

9. ONEOK, Inc., the predecessor of ONE Gas, established an accrued liability or environmental reserve of \$12.6 million in its financial records in 1997 at the time it acquired the gas properties from WRI. The initial liability represented an estimate, based on facts known to the parties in 1997, of costs associated with environmental issues, including the MGP Sites for which Kansas Gas Service is responsible. As funds were spent in the subsequent years, the accrued liability was reduced. Kansas Gas Service did not seek recovery from customers of any MGP Costs incurred between November 1, 1997, and December 31, 2016. In the third and fourth quarters of 2016, the Company recorded an additional liability totaling \$4.5 million to reflect an estimate of additional costs identified by Kansas Gas Service.²²

10. On April 11, 2017, Kansas Gas Service filed an application in this docket seeking approval of an AAO to accumulate, defer and recover costs incurred after January 1, 2017, associated with its obligation to perform Environmental Work at the MGP Sites.²³ The regulatory treatment sought by the Company was consistent with the treatment approved by the Commission in Docket No. 185,507-U. In that docket, Kansas Public Service Company, was allowed to accumulate, defer and recover environmental costs incurred in the work performed at an MGP Site

²¹ Buchanan Testimony, pages 5-6; Romi Testimony, Exhibit ELR-4.

²² Buchanan Testimony, page 6.

²³ Application, 17- 455 Docket, filed April 11, 2017; Buchanan Testimony, pages 6-7.

that it managed in Lawrence, Kansas.²⁴ Under Kansas Gas Service's AAO application, ONE Gas would continue to modify the accrued liability or environmental reserve as estimates of additional costs were identified by the Company.²⁵

11. On October 12, 2017, Kansas Gas Service, the Staff and the Citizens' Utility Ratepayer Board ("CURB"), submitted a Unanimous Settlement Agreement ("Agreement") in this docket.²⁶ A copy of the Agreement is attached to Ms. Buchanan's testimony as **Exhibit JLB-5**. The Agreement specified that the Commission would issue one AAO to cover all 12 MGP Sites and all cash expenditures made by the Company after January 1, 2014, that qualified as MGP Costs.²⁷ The MGP costs would be deferred to FERC Account No. 182.3.²⁸ MGP Costs were defined as follows:

actual and prudent external costs incurred after January 1, 2017, and which are necessary for the investigation and remediation work at MGP sites approved by KDHE . . . MGP Costs will also include regulatory costs (except internal labor costs) incurred related to MGP site oversight by the KDHE, as well as costs incurred in this Commission docket and any compliance docket. Further, MGP Costs will include those actual and prudent costs incurred in the pursuit of insurance recoveries to reimburse Kansas Gas Service for MGP Costs as defined in this Agreement. MGP Costs will not include internal labor costs. MGP Costs will also not include any and all costs incurred by [KGS] relating to any causes of action or any [third-party] claims relating to the MGP sites, including but not limited to claims for [third-party damages], claims for injunctive relief, declaratory judgements, claims pertaining to nuisance and/or claims formed under the common law ("Non-MGP Costs").²⁹

12. The Agreement established parameters around the amortization of the deferred MGP Costs.³⁰ In the first rate case following the issuance of the AAO, it was agreed the MGP Costs

24 Order dated July 14, 1993, Docket No. 185-507-U.

25 See footnote 23.

26 Unanimous Settlement Agreement, 17-455 Docket, filed October 12, 2017 (Agreement); Buchanan Testimony, Exhibit JLB-5.

27 *Id.*

28 *Id.* at paragraph 8.

29 *Id.*

30 *Id.* at paragraph 9.

deferred and included in the case would be amortized over a 15-year period.³¹ This would be considered the first tranche of MGP Costs. For any tranches of MGP Costs to be recovered in subsequent rate cases, the amortization period proposed by the Company would not result in customers paying greater than the net present value of 60 percent of MGP Costs.³¹ However, in those future rate cases, Staff and CURB could argue for a different amortization period, resulting in a different sharing of cost between investors and customers.³² Once an amortization period has been approved by the Commission for a particular tranche of costs, KGS, Staff and CURB agreed they would not argue for a different amortization period of the unamortized portion of the tranche in a subsequent rate case.³³ The unamortized portion of the tranche would not be included in rate base nor would carrying charges be applied.³⁴

13. Staff, CURB and Kansas Gas Service agreed to cap the dollar amount of MGP Costs to be deferred at \$15 million net of insurance proceeds.³⁵ All insurance proceeds (100 percent) paid to Kansas Gas Service for costs incurred in the investigation and remediation work at MGP Sites after January 1, 2017, were to be used to offset the gross MGP Costs.³⁶ If future MGP Costs net of insurance recoveries were expected to exceed \$15 million, then Kansas Gas Service would be required to file an application in this docket for approval to increase the \$15 million cap under the AAO.³⁷ Staff and CURB reserved the right to challenge a request to increase the \$15 million cap.³⁸

14. On November 21, 2017, the Commission issued an order approving the Agreement

31 *Id.* at paragraph 9.

32 *Id.* at paragraph 9.

33 *Id.* at paragraph 9.

34 *Id.* at paragraph 9.

35 *Id.* at paragraph 10.

36 *Id.* at paragraph 10.

37 *Id.* at paragraph 10.

38 *Id.* at paragraph 10.

and issuing the AAO. A copy of the 17-455 Order is attached to Ms. Buchanan's testimony as **Exhibit JLB-6.**³⁹

15. Consistent with the Agreement and the 17-455 Order, the Company subsequently 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.⁴⁰ In Docket No. 24-KGSG-610-RTS, Kansas Gas Service requested that a second tranche of MGP Costs totaling approximately \$13.5 million be amortized and recovered over 15 years.⁴¹ The Commission approved both requests.⁴²

IV. PROPOSAL TO INCREASE CAP AMOUNT AND REGULATORY TREATMENT

16. Kansas Gas Service has incurred actual MGP Costs, net of insurance proceeds, which exceed the \$15 million cap by approximately \$2.3 million.⁴³ From discussions with Staff and CURB during periodic meetings to discuss progress on the Environmental Work at the MGP Sites, it was suggested that Kansas Gas Service receive approval from KDHE of Corrective Action Plans at some of the MGP Sites in order to gain a better understanding of potential MGP Costs before requesting an increase to the cap.⁴⁴ However, the KDHE approval process has not proceeded along the then expected timeline.⁴⁵ Since the Company has been incurring MGP Costs in excess of the cap since August 2022, Kansas Gas Service seeks to move forward with the request to increase the cap for expenses covered by the AAO while work on the Corrected Action Plans progresses. Kansas Gas Service proposes increasing the total cap to \$32 million, which is an increase in the existing cap of \$15 million by \$17 million.

39 17-455 Order, Exhibit JLB-6.

40 Order Approving Settlement, Docket No. 18-KGSG-560-RTS.

41 Order Approving Settlement, Docket No. 24-KGSG-610-RTS.

42 See footnotes 40 and 41.

43 Buchanan Testimony, pages 9-10.

44 *Id.*

45 *Id.*

17. The request to increase the total cap by \$17 million to \$32 million is based upon the Company's remaining environmental reserve by MGP Site, which totals \$14,652,221.⁴⁶ This amount is Kansas Gas Service's current estimate of future expenditures related to Environmental Work at the MGP Sites managed by the Company.⁴⁷ Added to remaining environmental reserve amount are the MGP Costs incurred by MGP Site since August 2022, which is \$3,831,838, less insurance proceeds of \$1,481,460, resulting in net MGP Costs of \$2,350,378.⁴⁸ KDHE Corrective Action Plans have not been developed for MGP Sites in several locations. Therefore, as those plans are developed, it is possible that Kansas Gas Service will need to adjust its environmental reserve to reflect estimates of additional MGP Costs, and therefore need to make subsequent requests to increase the cap as it is doing with this application.⁴⁹

18. Kansas Gas Service is requesting that all other provisions of the Agreement approved by the Commission in its 17-455 Order remain in place.⁵⁰

V. WITNESSES

19. Kansas Gas Service supports its application with the testimony and exhibits of three witnesses. Ms. Janet Buchanan, Director of Rates and Regulatory Reporting for Kansas Gas Service, provides an overview of the transfer of the Environmental Work obligations of the MGP Sites to Kansas Gas Service and background information relating to the issuance of the AAO.⁵¹ She also provides testimony and exhibits supporting the Company's request to increase the cap in the AAO.⁵² Ms. Romi, with Burns and McDonnell, testifies as to the (1) history of the manufactured gas industry in Kansas; (2) background information regarding the MGP Sites

46 Buchanan Testimony, pages 10-11; Exhibit JLB-7.

47 *Id.*

48 *Id.*

49 *Id.*

50 *Id.*

51 Buchanan Testimony.

52 *Id.*

managed by Kansas Gas Service; (3) status of Environmental Work performed at each MGP Site managed by Kansas Gas Service; and (4) the 36-month tentative schedule of Environmental Work at each active MGP Site managed by Kansas Gas Service.⁵³ Finally, Mr. Mark Smith testifies to the Company's efforts to recover insurance proceeds from the various companies that provided coverage over the last 100 years for the MGP Sites.⁵⁴

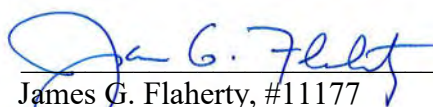
VI. CONCLUSION

20. Kansas Gas Service seeks an order from the Commission approving an increase in the cap placed on the AAO to \$32 million. All other provisions in the Agreement approved by the Commission in its 17-455 Order would remain in place.

WHEREFORE, Kansas Gas Service respectfully requests that the Commission issue its Order granting this Application and to grant such other relief as the Commission may deem appropriate.

Respectfully submitted,

KANSAS GAS SERVICE,
a division of ONE Gas, Inc.



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⁵³Romi Testimony.

⁵⁴Direct Testimony of Mark Smith (Smith Testimony).

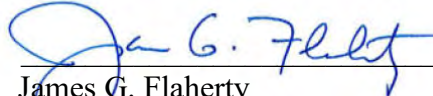
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Attorney for Kansas Gas Service,
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VERIFICATION

STATE OF KANSAS, COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being first duly sworn on oath, states: That he is the attorney for Kansas Gas Service, a division of ONE Gas, Inc., named in the foregoing Application, and is duly authorized to make this affidavit; that he has read the foregoing and 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 3rd day of January, 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 3rd day of January, 2025, addressed to:

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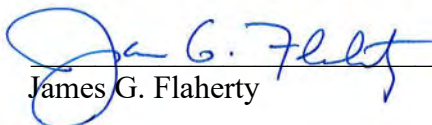
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