

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)
Work Performed at the Manufactured Gas)
Plant Sites Managed by Kansas Gas Service.)

Docket No. 17-KGSG-455-ACT

JOINT MOTION TO APPROVE UNANIMOUS SETTLEMENT AGREEMENT

Kansas Gas Service, a division of ONE Gas, Inc., ("Kansas Gas Service"), 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, move the Commission for an order approving the attached Unanimous Settlement Agreement ("Agreement") pursuant to K.A.R. 82-1-230a. In support of their Motion, Joint Movants state as follows:

1. Kansas Gas Service is a jurisdictional public utility as defined by K.S.A. 66-104 and is providing natural gas utility service in Kansas pursuant to grants of authority from the Commission.
2. On April 11, 2017, Kansas Gas Service filed an application seeking approval of an Accounting Authority Order ("AAO") to accumulate, defer and recover costs incurred after January 1, 2017, associated with Kansas Gas Service's obligation to perform environmental investigating, testing, monitoring, remediating and other work on 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 Kansas Gas Service and performed under a Consent Order with the State of Kansas Department of Health and Environment ("KDHE") in KDHE Case No.

94-E-0172 on October 7, 1994, by Kansas Gas Service's predecessor, Western Resources, Inc., ("WRI") and several amendments thereto (collectively "Consent Order") and Section II. A, paragraph 8 (K) of the Stipulation and Agreement approved by the Commission in Docket No. 97-WSRG-486-MER ("486 Docket") by Order dated October 15, 1997.

3. Kansas Gas Service sought regulatory treatment consistent with the treatment approved by the Commission in Docket No. 185,507-U (Order dated July 14, 1993) for similar environmental costs incurred in the work performed at an MGP site managed by Kansas Public Service Company ("KPS Docket"). Accordingly, Kansas Gas Service sought authority to accumulate in account 186, and recover in subsequent rate cases, MGP Costs to be amortized over a ten-year period. The regulatory asset would not accrue carrying charges, nor be included in rate base. The absence of accrued carrying charges and exclusion from rate base represents an economic cost absorbed by Kansas Gas Service and was intended to effectively result in a sharing of the costs between customers and shareholders on a 60% / 40% basis. Kansas Gas Service also sought permission to retain proceeds from insurance companies to cover \$9.49 million in MGP Costs paid by Kansas Gas Service between 1998 and December 31, 2016. Kansas Gas Service also sought permission to keep 40% of the insurance proceeds. The remaining 60% of the insurance proceeds would be credited to customers as allowed under the KPS Docket.

4. On September 8, 2017, Staff and CURB filed testimony. Staff recommended that both Kansas Gas Service's AAO and its requested ratemaking treatment for insurance proceeds be denied at this time. Staff also recommended the Commission endorse a framework in which all future ratepayer recovery of MGP Costs over \$1 million per MGP site be accomplished by reducing the net

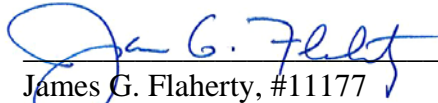
MGP Costs (net of insurance recoveries) amount by 40%, then amortizing the remaining balance over 10 years with carrying cost afforded to the unamortized balance at Kansas Gas Service's Commission approved Weighted Average Cost of Capital ("WACC"). Staff indicated that its proposed treatment accomplished the same ratemaking/policy goal that the Commission intended in the KPS Docket. Finally, Staff recommended that the Commission require Kansas Gas Service to credit 100% of all insurance proceeds against future MGP remediation expenses. CURB recommended that the Commission deny Kansas Gas Service's request and find that these costs should be recovered from Kansas Gas Service's shareholders. To the extent that the Commission would find that some recovery from ratepayers was appropriate, then CURB recommended the Commission should limit any deferral to 50% of remediation costs with ratemaking treatment for any deferral to be examined in a base rate case. CURB also recommended that internal labor costs not be included in any deferral.

5. On September 25, 2017, Kansas Gas Service filed rebuttal testimony regarding the positions taken by Staff and CURB. Kansas Gas Service contended that Staff's and CURB's positions were contrary to the ratemaking treatment/policy approved by the Commission in the KPS Docket with respect to recovery of MGP Costs and treatment of insurance proceeds relating to those MGP Costs.

6. Pursuant to the procedural schedule approved by the Commission in this matter, Kansas Gas Service, Staff and CURB held a settlement conference on September 28, 2017. Those settlement discussions have continued intermittently over a two-week period. As a result of those discussions, the Parties reached this Unanimous Settlement Agreement ("Agreement") to present to the Commission for approval. The Agreement is a unanimous settlement agreement as that term is

defined by K.A.R. 82-1-230a in that all parties to this docket have approved the Agreement and the Agreement addresses all issues in this docket.

WHEREFORE, Joint Movants respectfully request that the Commission grant the relief requested herein.



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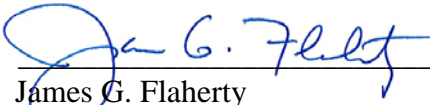
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Attorneys for CURB

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.; that he has read the forgoing Joint Motion to Approve Unanimous Settlement Agreement and the statements contained therein are true.



James G. Flaherty

SUBSCRIBED AND SWORN to before me this 12th day of October 2017.





Notary Public

Appointment/Commission Expires:

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Joint Motion to Approve Unanimous Settlement Agreement was sent via U.S. Mail, postage prepaid, hand-delivery, or electronically, this 12th day of October, 2017, addressed to:

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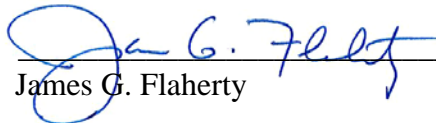
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James G. Flaherty

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UNANIMOUS SETTLEMENT AGREEMENT

Kansas Gas Service, a division of ONE Gas, Inc., ("Kansas Gas Service"), the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission," respectively) and the Citizens' Utility Ratepayer Board ("CURB"), collectively "Parties," agree as follows:

I. INTRODUCTION

1. Kansas Gas Service is a jurisdictional public utility as defined by K.S.A. 66-104 and is providing natural gas utility service in Kansas pursuant to grants of authority from the Commission.

2. On April 11, 2017, Kansas Gas Service filed an application seeking approval of an Accounting Authority Order ("AAO") to accumulate, defer and recover costs incurred after January 1, 2017, associated with Kansas Gas Service's obligation to perform environmental investigating, testing, monitoring, remediating and other work on 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 Kansas Gas Service and performed under a Consent Order with the State of Kansas Department of Health and Environment ("KDHE") in KDHE Case No. 94-E-0172 on October 7, 1994, by Kansas Gas Service's predecessor, Western Resources, Inc., ("WRI") and several amendments thereto (collectively "Consent Order") and Section II. A, paragraph

8 (K) of the Stipulation and Agreement approved by the Commission in Docket No. 97-WSRG-486-MER ("486 Docket") by Order dated October 15, 1997.

3. Kansas Gas Service sought regulatory treatment consistent with the treatment approved by the Commission in Docket No. 185,507-U (Order dated July 14, 1993) for similar environmental costs incurred in the work performed at an MGP site managed by Kansas Public Service Company ("KPS Docket"). Accordingly, Kansas Gas Service sought authority to accumulate in account 186, and recover in subsequent rate cases, MGP Costs to be amortized over a ten-year period. The regulatory asset would not accrue carrying charges, nor be included in rate base. The absence of accrued carrying charges and exclusion from rate base represents an economic cost absorbed by Kansas Gas Service and was intended to effectively result in a sharing of the costs between customers and shareholders on a 60% / 40% basis. Kansas Gas Service also sought permission to retain proceeds from insurance companies to cover \$9.49 million in MGP Costs paid by Kansas Gas Service between 1998 and December 31, 2016. Kansas Gas Service also sought permission to keep 40% of the insurance proceeds. The remaining 60% of the insurance proceeds would be credited to customers as allowed under the KPS Docket.

4. On September 8, 2017, Staff and CURB filed testimony. Staff recommended that both Kansas Gas Service's AAO and its requested ratemaking treatment for insurance proceeds be denied at this time. Staff also recommended the Commission endorse a framework in which all future ratepayer recovery of MGP Costs over \$1 million per MGP site be accomplished by reducing the net MGP Costs (net of insurance recoveries) amount by 40%, then amortizing the remaining balance over 10 years with carrying cost afforded to the unamortized balance at Kansas Gas Service's Commission approved Weighted Average Cost of Capital ("WACC"). Staff indicated that its proposed treatment

accomplished the same ratemaking/policy goal that the Commission intended in the KPS Docket. Finally, Staff recommended that the Commission require Kansas Gas Service to credit 100% of all insurance proceeds against future MGP remediation expenses. CURB recommended that the Commission deny Kansas Gas Service's request and find that these costs should be recovered from Kansas Gas Service's shareholders. To the extent that the Commission would find that some recovery from ratepayers was appropriate, then CURB recommended the Commission should limit any deferral to 50% of remediation costs with ratemaking treatment for any deferral to be examined in a base rate case. CURB also recommended that internal labor costs not be included in any deferral.

5. On September 25, 2017, Kansas Gas Service filed rebuttal testimony regarding the positions taken by Staff and CURB. Kansas Gas Service contended that Staff's and CURB's positions were contrary to the ratemaking treatment/policy approved by the Commission in the KPS Docket with respect to recovery of MGP Costs and treatment of insurance proceeds relating to those MGP Costs.

6. Pursuant to the procedural schedule approved by the Commission in this matter, Kansas Gas Service, Staff and CURB held a settlement conference on September 28, 2017. Those settlement discussions have continued intermittently over a two-week period. As a result of those discussions, the Parties reached this Unanimous Settlement Agreement ("Agreement") to present to the Commission for approval. The Agreement is a unanimous settlement agreement as that term is defined by K.A.R. 82-1-230a in that all parties to this docket have approved the Agreement and the Agreement addresses all issues in this docket.

II. TERMS OF THE SETTLEMENT AGREEMENT

7. RECOMMEND APPROVAL. The Parties agree to recommend that the Commission

find this Agreement to be in the public interest and that the terms set forth below should be adopted by the Commission. The Parties stipulate and agree as follows:

8. ACCOUNTING AUTHORITY ORDER. The Commission will issue one AAO that will cover all MGP sites and all cash expenditures made by Kansas Gas Service after January 1, 2017, relating to all MGP Costs. MGP Costs are defined as 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 (hereinafter referred to as "MGP Costs"). 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 Kansas Gas Service 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"). Kansas Gas Service shall be allowed to accumulate in account 182.3 and seek approval to recover in subsequent rate cases, the actual and prudent MGP Costs it incurs beginning on January 1, 2017, at the twelve (12) former manufactured gas plant ("MGP") sites currently managed by Kansas Gas Service, which are identified in this docket.

9. AMORTIZATION PERIOD. Kansas Gas Service will be allowed to defer and seek recovery of 100% of the MGP Costs as defined in this Agreement. For the first rate case in which Kansas Gas Service seeks recovery of MGP Costs that it has deferred, Kansas Gas Service shall use

a 15-year amortization period. Kansas Gas Service shall be allowed to continue to defer and seek recovery of 100% of MGP Costs as defined in this Agreement in subsequent rate cases. Each respective set of MGP Costs Kansas Gas Service seeks recovery of shall be considered a separate tranche. Excluding the first tranche, which shall be assigned a 15-year amortization period, Kansas Gas Service shall be allowed to seek an amortization period for each separate tranche of MGP Costs provided the amortization period cannot result in ratepayers paying greater than the net present value of 60% of MGP Costs. Parties, other than Kansas Gas Service, reserve the right to argue a different amortization period should apply as necessary to effectuate any and all degrees of ratepayer / shareholder cost recovery. Kansas Gas Service reserves the right to rebut the positions of other Parties in the event other Parties recommend an amortization period that would result in ratepayers paying less than the net present value of 60% of MGP Costs. Any unamortized MGP Costs shall not be included in rate base in rate cases or accumulate carrying charges outside of a rate case. Once a MGP Cost tranche's amortization period has been approved by the Commission, no Party shall be allowed to recommend the MGP Cost tranche's amortization period should be altered.

10. CAPON AAO. The expenditures relating to the MGP Costs covered by the AAO shall be limited to \$15 million net of insurance recoveries under the AAO. If future MGP Costs net of insurance recoveries are expected to exceed \$15 million, then Kansas Gas Service will be required to file an application in this docket for approval to increase the \$15 million amount under the AAO. Staff and CURB reserve the right to challenge a request to increase the \$15 million cap, and in these regards, do not waive their unequivocal right to reassert any argument posed in this docket with respect to any such requested increase, including the assertion that any such increase should be borne entirely by shareholders of Kansas Gas Service and Kansas Gas Service reserves the right to reassert

any rebuttal argument posed in this docket should Staff or CURB reassert any argument posed in this docket in relation to a request to increase the cap.

11. REGULATORY TREATMENT OF INSURANCE PROCEEDS. One hundred percent (100%) of the proceeds paid by insurance companies after January 1, 2017, in reimbursement to Kansas Gas Service for investigation and remediation costs incurred, in connection with the investigation and remediation work at the MGP sites approved by KDHE included in this Application (i.e., MGP Costs) shall be applied by Kansas Gas Service to reduce the gross MGP Costs, as defined above. To the extent possible, Kansas Gas Service shall track and match up proceeds received from insurance with the cost paid and the MGP site to which it is related. The Parties understand and agree that other general liability claims could be made against the insurance policies for recovery of Non-MGP Costs, but neither the costs related to those claims or any insurance proceeds relating to those claims shall be covered under this AAO and this Agreement. At the time the Parties mutually agree that this docket or compliance docket can be closed and there are insurance proceeds in excess of the MGP Costs paid by insurance companies to reimburse Kansas Gas Service for MGP Costs (as defined herein) that Kansas Gas Service has asked its customers to pay, then Kansas Gas Service shall be allowed to retain those excess insurance proceeds at the time the Commission closes out the docket. Upon closure of the docket, Kansas Gas Service will not be permitted to seek recovery from Kansas ratepayers of future MGP Costs related to Kansas Gas Service's Kansas MGP sites, regardless of whether or not such MGP Costs are known or unknown, definite or contingent, or arise from MGP sites covered by this Agreement or otherwise.

12. REPORTING REQUIREMENTS. Kansas Gas Service shall comply with the following reporting requirements under the AAO:

a. Kansas Gas Service shall file an annual report on or before April 1 of each year in a compliance docket that shall include: (1) all reports provided to KDHE during the preceding calendar year; (2) a summary of the MGP Costs incurred in the preceding calendar year; (3) a description of the scheduled work conducted in the preceding calendar year and to be conducted in the subsequent calendar year as well as a cost estimate for such work; and (4) the amount of insurance proceeds received, if any, associated with MGP Costs in the preceding year.

b. Kansas Gas Service shall also to the extent possible, include in the annual report: (i) MGP Costs (and invoices reflecting those MGP Costs) broken down by MGP site and (ii) proceeds paid by the insurance company to reimburse KGS for MGP Costs matched up to MGP Cost invoices and broken down by MGP site if possible.

c. In addition to the above mentioned reporting requirements, if Kansas Gas Service becomes aware of additional remediation projects that are reasonably expected to exceed \$1 million, it shall meet with the Staff and CURB to provide them the scope of the work to be performed under the project that has been approved by KDHE. During this meeting Kansas Gas Service will provide the estimated cost for the work to be performed, an explanation with support of how the work will be performed, an explanation of the reasonableness of the work to be performed, an explanation as to what other options Kansas Gas Service evaluated, and an explanation as to why the option chosen by Kansas Gas Service and approved by the KDHE was selected over the other options.

13. MISCELLANEOUS PROVISIONS.

a. This Agreement fully resolves issues specifically addressed in this Agreement.

The terms contained in this Agreement constitute a fair and reasonable resolution of the issues addressed herein.

b. The terms in this Agreement have resulted from extensive negotiations among the Parties and are interdependent. In the event the Commission does not approve and adopt the terms of this Agreement in total, any Party has the option to terminate this Agreement and, if so terminated, none of the Parties shall be bound, prejudiced, or in any way affected by any of the terms contained in this Agreement, unless otherwise provided herein. If this Agreement is terminated under this provision, then the Parties agree to seek the first available hearing date on the Commission's calendar for an evidentiary hearing on the merits of the issues raised in this docket.

c. It is the Parties' intent to pre file testimony in support of the Agreement and to present those witnesses in support of this Agreement at a hearing before the Commission. The Parties agree to move for the admission of all pre filed testimony and exhibits and to waive cross examination of all witnesses, provided that the Parties may be allowed to ask witnesses questions relating to any questions posed by the Commission at the hearing on this Agreement.

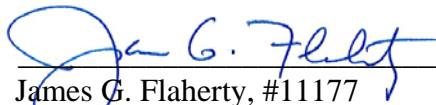
d. Unless (and only to the extent) otherwise specified in this Agreement, the Parties shall not be prejudiced, bound, or affected in any way by the terms of this Agreement: (1) in any future Commission or court proceeding; (2) in any proceeding currently pending under a separate docket; and/or (3) in this proceeding, if the Commission decides not to approve this Agreement in total or in any way conditions its approval of the same.

e. This Agreement does not prejudice or waive any Party's rights, positions, claims, assertions, or arguments in any proceeding in this docket, or any other proceedings

before this Commission or in any court.

f. If the Commission approves this Agreement in its entirety and incorporates the same into its final order in this docket, the Parties intend to 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.

AGREED TO AND ACCEPTED this _____ day of October, 2017, by:



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