**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of 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,	)	**Docket No. 17-KGSG-455-ACT**
Monitoring, Remediating and Other Work	)	
Performed at the Manufactured Gas Plant Sites	)	
Managed by Kansas Gas Service.	)	

TESTIMONY IN SUPPORT OF UNANIMOUS SETTLEMENT AGREEMENT

PREPARED BY

JUSTIN T. GRADY

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

JUNE 6, 2025

Q. Would you please state your name and business address?

A. My name is Justin T. Grady. My business address is 1500 Southwest Arrowhead Road, Topeka, Kansas, 66604.

Q. Are you the same Justin T. Grady that filed Direct Testimony in this matter on September 8, 2017, and October 12, 2017?

A. Yes.

Q. What is the purpose of your testimony?

A. I am testifying on behalf of the Staff of the Kansas Corporation Commission (Staff and Commission, respectively) in support of the settlement of the issues outlined in the Unanimous Settlement Agreement (Agreement) between Kansas Gas Service (KGS), a Division of ONE Gas, Inc. (ONE GAS), Staff, and the Citizens' Utility Ratepayer Board (CURB), collectively, the Parties.

My testimony will answer the fundamental question as to why the Commission should approve the Agreement as a reasonable resolution that furthers the public interest. Specifically, I will:

- Provide background information about this docket;
- Provide an overview and discussion of the Agreement;
- Discuss the standard of review used to guide the Commission in its consideration of whether to accept the Agreement; and
- Discuss the evidence in the record that supports the Agreement.

Background Information

Q. Please provide a brief background of this case.

A. 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 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 KGS' ongoing obligation to perform environmental investigating, testing, monitoring, remediating and other work on 12 specific manufactured gas facilities (MGP Sites).

KGS requested permission from the Commission to increase the cap on the AAO from $15 million to $32 million, which represents the most updated cost estimate for environmental work that KGS is performing at the MGP Sites under the direction and supervision of the Kansas Department of Health and Environment (KDHE). KGS indicated that all other terms contained in the October 12, 2017, Unanimous Settlement Agreement with Staff and CURB would remain the same.

On April 25, 2025, I filed a Report and Recommendation (R&R) which laid out Staff's continued support regarding the recovery of the MGP environmental costs over a 15-year recovery period without the accumulation of a return or inclusion in rate base. I pointed 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 recommended the Commission approve KGS' request to increase the AAO cap for MGP environmental costs from $15 million to $32 million, with all the other terms in the October 12, 2017, Unanimous Settlement Agreement remaining in place.

On May 8, 2025, CURB filed a response to Staff's R&R. CURB did not object to the increase in the cap, however, it recommended that the Commission change its policy to effectively change the sharing of the MGP environmental costs from 60%|40% to 50%|50%. On May 8, 2025, KGS filed its response to Staff's R&R and its reply to CURB's recommendation. KGS agreed with Staff and requested that the Commission adopt Staff's recommendation. KGS did not agree with CURB's recommendation that the Commission alter its policy to change the cost sharing percentages. KGS pointed out that in both instances in which MGP cost recovery was sought, additional regulatory lag increased the time period of recovery by 2 years, which effectively results in a 50%|50% sharing of costs between ratepayers and shareholders today. This net present value calculation was attached to KGS' Response as Exhibit KGS-1.

<u>Terms of the Settlement Agreement</u>

Q. Please provide an overview of the Agreement.

A. The Agreement provides the following key terms:

- The Parties agree to recommend that the Commission find this Settlement to be in the public interest and that the terms set forth below should be adopted by the Commission.
- The Parties agree that the Commission should approve the recommendations contained in Staff's R&R filed in this docket on April 24, 2025. Specifically, Staff recommended that the Commission approve the Kansas Gas Service request to

increase the cap for MGP environmental costs from $15 million to $32 million and that all other terms of the October 12, 2017, Unanimous Settlement Agreement remain unchanged.

- The Parties agree that in addition to the other reservation of rights contained in the October 12, 2017, Unanimous Settlement Agreement, which remain unchanged as a result of this Settlement, CURB reserves its right to address the sharing mechanism in any future filing where Kansas Gas Service seeks to increase the cap for MGP environmental costs under the AAO.

Support for the Settlement Agreement

Q. Please address whether the Agreement is supported by substantial competent evidence in the record as a whole.

A. The Agreement is supported by substantial competent evidence in the record as a whole. The Agreement is supported by all the procedural history in this Docket prior to KGS' January 3, 2025, Application to increase the AAO cap, as well as KGS's Application and Direct Testimony from three witnesses. Staff analyzed the Application and formed its own conclusions which were filed in my R&R on April 24, 2025. CURB also reviewed the filing and stated its position in a Response. KGS filed a Reply to both CURB's Response as well as Staff's R&R. These filed positions represent the body of evidence the Commission can rely on to make a determination that the results of this Settlement Agreement are just and reasonable, and in the public interest. The Parties also relied on this evidence to eventually agree upon resolution of the issues. It is Staff's position that the terms of this Agreement approximate what could be expected if the case were to be fully litigated.

Q. Will the Agreement result in just and reasonable rates?

A. Staff contends that the Agreement will contribute to the establishment of just and reasonable rates. While the Agreement technically does not affect current rates, it does provide an Accounting Authority Order that will likely affect rates in the future. Staff contends that the Agreement will result in just and reasonable rates because the Agreement adopts Staff's recommended amortization period of 15-years, which results in a reasonable sharing of these costs between ratepayers and shareholders.

Q. Will the Agreement promote the Public Interest?

A. Yes. There were multiple interests represented by the Parties involved in the negotiations, with CURB representing the interests of residential and small general service ratepayers, KGS representing the interest of its management and shareholders, and Staff attempting to balance each of these interests while representing the interests of the public generally. Because these varied interests were able to collaborate and present a unanimous resolution of the issues in this case, Staff believes the public interest standard has been met.

Staff offers the following factors in support of the fact that the Agreement is in the public interest:

1. The Agreement provides a formal and efficient resolution of a major policy issue that would have to be addressed in future KGS rate cases. By coming to a resolution of this issue now, the Parties and the Commission know what to expect regarding this issue in future KGS rate cases;
2. The Agreement provides for deferred MGP Costs to be amortized over 15-years;

3. The Agreement continues the provision that 100% of all insurance proceeds received by KGS relating to reimbursement of MGP Costs to be credited against the regulatory asset that contains the deferred MGP Costs. In other words, only MGP Costs net of insurance recoveries will be recovered from ratepayers over 15 years;
4. The Agreement continues the provision that KGS is required to report to the Commission annually regarding the nature of current and future MGP Costs and activities, for each MGP Site. This also continues a requirement for KGS to meet with Staff and CURB in the event that a new significant MGP remediation project (containing costs of at least $1 million) is identified; and
5. The Agreement avoids the much more costly and time-consuming process of fully litigating these issues before the Commission in an evidentiary hearing. Since the Agreement avoids the time and expense necessary for the Commission to decide this case at hearing is also support that the Agreement is in the public interest.

Q. Does this conclude your testimony?

A. Yes, it does.

UNSWORN DECLARATION UNDER PENALTY OF PERJURY

Under penalties of perjury, I declare that I am Director of Utilities of the Utilities Division of the Kansas Corporation Commission, that I have read and am familiar with the foregoing Direct Testimony, and that the statements contained herein are true and correct to the best of my knowledge, information and belief. Executed on June 6, 2025.

Justin Grady
Director of Utilities

State Corporation Commission of the
State of Kansas

CERTIFICATE OF SERVICE

17-KGSG-455-ACT

I, the undersigned, certify that a true copy of the attached Testimony has been served to the following by means of electronic service on June 6, 2025.

JOSEPH R. ASTRAB, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
joseph.astrab@ks.gov

AARON BAILEY, ASSISTANT GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
aaron.bailey@ks.gov

LORNA EATON, MANAGER OF RATES AND REGULATORY AFFAIRS
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH STREET
OVERLAND PARK, KS 66213
lorna.eaton@onegas.com

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067-0017
jflaherty@andersonbyrd.com

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
todd.love@ks.gov

CARLY MASENTHIN, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
carly.masenthin@ks.gov

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
shonda.rabb@ks.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
della.smith@ks.gov

/S/ Kiley McManaman
Kiley McManaman