

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- <u>455</u> -ACT
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APPLICATION FOR ACCOUNTING 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 of an accounting order authorizing 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 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, which are being managed by the Company ("Environmental Work"). Costs associated with Environmental Work prior to January 1, 2017 were paid for solely by the Company's shareholders. 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 "Consent Order"); 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, 1997.¹ In support of its Application, Kansas Gas Service states as follows:

¹Section 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*).

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 635,000 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:

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3. Kansas Gas Service seeks authority to accumulate in account 186, and seeks approval to recover in subsequent rate cases, the actual and prudent costs and expenses it incurs beginning on January 1, 2017, on Environmental Work performed under the Consent Order at the twelve (12) former manufactured gas plant ("MGP") sites currently managed by Kansas Gas Service ("MGP

Costs"). A spreadsheet identifying the tentative 36-month schedule of work to be performed by Kansas Gas Service at the 12 MGP sites, which was prepared by Kansas Gas Service and shared with KDHE for planning purposes, is included in the testimony of Mr. James Haught, Director-Environmental for ONE Gas, which is being filed in support of the Application, and which is incorporated herein by reference. Recovery of the MGP Costs would be requested in Kansas Gas Service's subsequent general rate cases 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 effectively results in a sharing of the costs between shareholders and customers. The requested treatment of the MGP Costs as set forth in this Application is identical to the treatment approved by the Commission in KCC 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").²

4. Kansas Gas Service seeks authority to continue to use the above-mentioned authority and process after the first general rate case where MGP Costs are recovered to accumulate the MGP Costs incurred in between subsequent rate cases for recovery in the next succeeding general rate case following the period in which the MGP Costs were incurred until all of the Environmental Work has been performed at the MGP sites being managed by Kansas Gas Service.

5. From November 1, 1997 through December 31, 2016, Kansas Gas Service has spent \$10.75 million on MGP Costs, while receiving \$1.26 million in insurance recoveries related to MGP Costs, resulting in an unrecovered balance of \$9.49 million. As a result, Kansas Gas Service also seeks approval from the Commission to retain proceeds recovered from insurance companies (that

²A copy of the Order dated July 14, 1993, in Docket No. 185,507-U is attached to Mr. Dittmore's testimony, which is being filed in support of the Application.

may be responsible for coverage under their insurance policies for the MGP Costs) up to the \$9.49 million in MGP Costs that Kansas Gas Service has incurred through December 31, 2016. In support of this request, Mr. David Dittmore, Director of Rates and Regulatory Affairs for Kansas Gas Service, explains in his testimony filed in support of this Application, that Kansas Gas Service has not included MGP Costs in the utility's cost of service for recovery in rates for the past 20 years. Instead, the MGP Costs have been paid by the utility's shareholders. Additionally, Kansas Gas Service proposes that any insurance proceeds that it receives in excess of \$9.49 million be shared between its shareholders and the customers similar to what was approved by the Commission in the 1993 KPS Docket, after deducting legal fees, consultant and expert witness fees and other costs prudently incurred in obtaining the insurance proceeds. In that case, the Commission allowed the utility to keep 40% of the insurance proceeds in order to encourage the utility to recover as much as reasonably possible from the insurance companies.³ As in the KPS Docket, the 60% share of the insurance proceeds credited to the customers shall be used to reduce the regulatory asset and subsequently reduce the amortization costs incurred by customers.⁴ The portion of insurance proceeds retained by Kansas Gas Service would be credited to account 421 and excluded in the determination of the utility's revenue requirement in subsequent rate proceedings.

6. This Application and the testimony and exhibits filed in support of the Application by Mr. Haight, Mr. Dittmore and Mr. Smith, which are incorporated herein by reference, cover the following:

Section I: Introduction

Section II: History of the Manufactured Gas Industry in Kansas

³Order dated July 14, 1993, Docket No. 185,507-U, page 5, paragraph 11; page 7, paragraph 19.

⁴*Id.*

- Section III: Background Information Regarding the MGP Sites Managed by Kansas Gas Service
- Section IV: KDHE's Consent Order Covering the MGP Sites Managed by Kansas Gas Service
- Section V: Status of the Environmental Work Performed at Each MGP Site Managed by Kansas Gas Service
- Section VI: The 36-Month Tentative Environmental Work and Schedule at Each MGP Site Managed by Kansas Gas Service
- Section VII: Regulatory Treatment of MGP Costs in Kansas
- Section VIII: Kansas Gas Service's Request for an Accounting Order to Accumulate, Defer and Recover MGP Costs Associated with Environmental Work Performed at MGP Sites Managed by Kansas Gas Service Under the KDHE Consent Order
- Section IX: Status of Potential Recovery of Proceeds from Insurance Companies and Kansas Gas Service's Proposal for the Treatment of Such Proceeds
- Section X: Conclusion

II. HISTORY OF THE MANUFACTURED GAS INDUSTRY IN KANSAS

7. The Statement of Facts contained in the KDHE Consent Order sets forth the following summary of the history of the manufactured gas industry in Kansas:

- a. Beginning in the 1850s, the manufactured gas industry provided gas service in Kansas.
- b. Manufactured gas plants ("MGPs") produced gas for lighting and heating purposes by converting coal (and sometimes coal and petroleum) into a gas product.
- c. The United States Environmental Protection Agency ("EPA") has estimated that manufactured gas plants operated at over 1,500 locations throughout the United States.

d. The availability of natural gas delivered by pipeline made manufactured gas obsolete and manufactured gas production was limited to peaking load until production finally ceased in the 1950s.

e. By-products of manufactured gas production (such as coal tar) were produced because the coal was not wholly consumed during the manufacturing. Coal tars were valuable by-products and were typically stored on-site for sale and transported to users as an ingredient in the manufacture of asphalt, cosmetics, chewing gum, plastics and other products.

f. Residuals of manufactured gas production include certain substances that possessed no economic value, such as emulsified coal tars, purifier (or oxide) box materials, clinker⁵ and sometimes petroleum. Residuals may have been stored on-site in a variety of above- and below-ground structures.

As a purification step during the production of manufactured gas, oxide boxes were commonly used to remove contaminants from the manufactured gas. Purifier box materials typically consisted of wood chips, iron oxide, and chemicals (such as iron sulfides and stable complexes) removed from the manufactured gas during purification. Weathered spent oxide box filler exhibits an intense blue pigmentation caused by ferric ferrocyanide, $\text{Fe}_4[\text{Fe}(\text{CN})_4]_3$, a chemical compound which is used commercially as a pigment and is commonly known as Prussian Blue. The Merck Index lists the use of Prussian Blue as a pigment in applications such as printing inks, paints, alkyl resin enamels, linoleum, carbon papers and artist's colors.

g. Some MGP's have been listed on the United States EPA's National Priorities List because the presence of coal gasification residuals were found to present a significant

5. "Clinker" is the stony residue from burned coal or from a furnace.

exposure risk to human health or the environment.

h. Chemical constituents which have been found in coal gasification residuals include: polynuclear aromatic hydrocarbons, volatile aromatics, metals, phenolic, and various inorganics.

i. WRI and KDHE recognized that the manufactured gas industry's past practices were state-of-the-art at the time, but that these historic practices may not reflect modern environmental requirements.

j. The Respondent (WRI) desired to insure the public health, welfare and the environment at or near the Sites (locations of the MGPs) are protected from any release or threat of release of hazardous substances.⁶

III. BACKGROUND INFORMATION REGARDING THE MGP SITES MANAGED BY KANSAS GAS SERVICE

8. 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. KDHE has contacted Kansas Gas Service regarding potential management of an MGP site in Ottawa, Kansas, but unlike the other sites, Kansas Gas Service has determined that this site was not owned by one of Kansas Gas Service's predecessors. The Company has informed KDHE that, unless additional information becomes available that clearly indicates that Kansas Gas Service is in fact a successor, it does not intend to manage the MGP site in Ottawa. Most of these MGPs began their operations in the late 1880s and ended their operations by 1930. With the exception of the Ottawa site, ownership of the MGPs can be traced back to Kansas Gas Service's and Westar Energy's ("Westar") predecessors.

⁶A Copy of the Consent Order and amendments thereto are included with Mr. Haught's Testimony as an Exhibit and are incorporated herein by reference; Article III, Statement of Facts, pages 3-5.

Also, Kansas Gas Service owns the real property at six of the twelve sites where the MGPs were once located and the remaining real property at the other six sites is owned by third parties.

9. Included with the testimony of Mr. Haught is a spreadsheet which provides additional background information regarding each of the 12 MGP sites. The spreadsheet identifies whether Kansas Gas Service owns the site and whether there is an active Company service center at the site. This spreadsheet also contains a categorical summary of the Environmental Work that has been performed to date and the current status of each site as it relates to soil, groundwater and vapor intrusion. Finally, the exhibit includes information with respect to the regulatory status for each site.

IV. KDHE'S CONSENT ORDER COVERING THE MGP SITES MANAGED BY KANSAS GAS SERVICE

10. On October 7, 1994, KDHE and WRI entered into the Consent Order.⁷ The Consent Order at that time pertained to two MGP sites, one located in Hutchinson, the other located in Leavenworth.⁸ The Consent Order covered the performance of WRI of certain environmental investigation and remedial activities at the MGP sites and WRI agreed to comply with and be bound by the terms of the Consent Order.⁹ The purpose of the Consent Order was to develop an effective response activity to determine the source, nature, extent and impact of MGP contamination by performing certain activities and taking certain actions spelled out in the Consent Order.¹⁰ The Consent Order allowed KDHE and WRI to add or delete other MGP sites to be covered by the Consent Order.¹¹ Subsequently, amendments were made to the Consent Order so it covered

⁷Consent Order dated October 7, 1994, attached to Mr. Haught's testimony.

⁸Exhibit A to Consent Order.

⁹Consent Order, Articles I and II, Jurisdiction and Statement of Purpose, pages 1-3.

¹⁰Consent Order, pages 2-3.

¹¹Consent Order, page 3.

additional MGP sites. Copies of the Consent Order and amendments thereto are included with Mr. Haught's testimony and incorporated herein by reference.

11. The Stipulation and Agreement approved by the Commission in the 486 Docket specifically required Kansas Gas Service to assume the environmental performance practiced by WRI at the time WRI sold its Kansas natural gas business to ONEOK, Inc., ("ONEOK") in 1997, including WRI's performance under the Consent Order.¹² Mr. Paul Dietz, Senior Research Economist for the Commission Staff, who testified on behalf of the Staff in the 486 Docket, stated that the Consent Order at the time (1997) covered five MGP sites and indicated that there were other sites that were likely to be covered by the Consent Order in the future.¹³ He testified that "these are extensive and ongoing projects which will require expertise and resources for many years" and recommended that the Commission order Kansas Gas Service to work with KDHE in order to maintain the environmental performance practiced by WRI under the Consent Order.¹⁴ As set forth below in Section V of this Application and more fully described in Mr. Haught's testimony in support of this Application, the number of MGP sites covered by the Consent Order has increased and the Environmental Work performed and anticipated to be performed in the future by Kansas Gas Service at the sites, has been refined as a result of some of the investigative work performed by Kansas Gas Service since 1997. Mr. Haught's testimony includes a time line showing the amendments to the Consent Order and references regarding which MGP sites were added under those amendments. Kansas Gas Service and KDHE continue to work under the Consent Order in a cooperative manner to schedule and prioritize the Environmental Work performed at the MGP sites being managed by Kansas Gas Service.

¹²Docket No. 97-WSRG-486-MER ("486 Docket"), Order No. 12, Order Granting Joint Motion and Approving Stipulation and Agreement, page 15, paragraph 35.

¹³Paul Dietz Prefiled Direct Testimony filed in 486 Docket, Section Two, page 7.

¹⁴*Id.*

V. **STATUS OF THE ENVIRONMENTAL WORK PERFORMED AT EACH MGP SITE MANAGED BY KANSAS GAS SERVICE**

12. Mr. Haught includes a spreadsheet as an exhibit to his testimony that provides a status update for each MGP site. The spreadsheet includes a brief narrative of the status of the Environmental Work performed at each site. It identifies those sites where Kansas Gas Service owns the real property at the site and also includes information related to the status of Environmental Work relating to soil, groundwater and vapor intrusion at each site. Finally, Mr. Haught's testimony includes information with respect to the regulatory status for each site.

13. Kansas Gas Service has conducted at least one or more investigations of soil and/or groundwater at each of the 12 MGP sites. Ongoing water monitoring continues, for example, as groundwater monitoring wells have been installed at all 8 sites that have a regulated amount of groundwater present. To date, there is limited groundwater present at the other 4 sites. Kansas Gas Service is currently monitoring (sampling, analyzing and reporting to KDHE) groundwater wells at least once each calendar year.

14. Kansas Gas Service has completed or addressed removal of the source of soil contamination at 11 of the 12 sites in accordance with plans approved by KDHE. The Company has begun the assessment at the remaining MGP site where no active remediation has yet occurred. Although 11 sites have had some degree of MGP residue removed, contamination still remains to be managed at all 12 sites. Active site management will include continued monitoring, investigation and feasible contamination removal and/or onsite treatment until contamination is reduced to a level and extent that human health and the environment can be protected by long-term monitoring and the natural breakdown of contaminants over time.

15. As of December 31, 2016, Kansas Gas Service has incurred approximately \$10.75 million in MGP Costs. As explained by Mr. Haught, it is extremely difficult to estimate with an

acceptable level of certainty what the total remaining MGP Costs will be at the 12 sites because it is unknown how much Environmental Work will need to be done in the future. As explained below in Section IX of this Application and as described in more detail in Mr. Smith's testimony, one of the main reasons Kansas Gas Service has been reluctant to enter into final settlement discussions with insurance companies to date is because of the difficulty in determining what the remaining MGP Costs will be at the 12 sites.

VI. THE 36-MONTH TENTATIVE ENVIRONMENTAL WORK AND SCHEDULE AT EACH MGP SITE MANAGED BY KANSAS GAS SERVICE

16. In addition to the exhibits described above, Mr. Haught includes another spreadsheet as an exhibit to his testimony that sets forth a tentative 36-month schedule for Environmental Work at each of the 12 MGP sites. The information contained in this spreadsheet is prepared by ONE Gas and shared with KDHE for planning purposes to assist ONE Gas and KDHE in identifying and prioritizing mutual goals over the next three-year period. As explained by Mr. Haught, ONE Gas periodically reevaluates the work and schedule and KDHE and ONE Gas both expect that the work and schedule may change based upon field experience and other factors. Upon approval of this Application, and while the Accounting Order is in effect, Kansas Gas Service is agreeable to providing the Commission and its Staff all updates to the spreadsheet and to responding to any questions regarding the information contained in the spreadsheet.

17. At the time of this filing, the probable and reasonably measurable MGP Costs included in the reserve is \$5.9 million. Only actual costs incurred will be subject to recovery in a future rate case. Kansas Gas Service will maintain documentation and records in order to track the actual MGP Costs for the Environmental Work performed by Kansas Gas Service, and will provide annual reporting information as described in the testimony of David Dittimore.

VII. REGULATORY TREATMENT OF MGP COSTS IN KANSAS

18. In his testimony, Mr. Dittmore explains how the regulatory treatment sought by Kansas Gas Service (with respect to recovery of MGP Costs for Environmental Work performed at the MGP sites managed by Kansas Gas Service) is identical to the treatment approved by the Commission in the KPS Docket. In the KPS Docket, the gas utility sought permission to establish a miscellaneous deferred debit to capture costs relating to investigative and potential remedial work performed at an MGP site being managed by the utility.¹⁵ The Commission allowed the gas utility to defer such costs for recovery in the utility's next rate case.¹⁶ The Commission also held that total deferred cost approved in the rate case would be amortized over a ten-year period and¹⁷ that these costs should not accrue carrying charges, nor be included in rate base in future rate case proceedings.¹⁸ The Commission found that since the utility's shareholders were not allowed to earn a return on costs for work performed at the MGP site, there was an effective sharing of costs, with the customers paying 60% of the costs and shareholders paying 40% of the costs.¹⁹ Additionally, the Commission also found that any subsequent insurance recoveries should be shared, with the customers receiving credit for 60% of the insurance proceeds and the Company being allowed to retain 40% of the insurance proceeds in order to encourage the utility to seek recovery from the insurance companies.²⁰

19. This Commission's allowance for recovery of MGP Costs by gas utilities is consistent with other public utility commissions' treatment of such costs, with many commissions allowing the utilities to fully recover such costs.²¹ There are several reasons for allowing recovery. The main

¹⁵KPS Docket, Order dated July 14, 1993, page 6, paragraph 15.

¹⁶*Id.*, paragraph 16.

¹⁷*Id.*

¹⁸*Id.*, paragraph 17.

¹⁹*Id.* at page 4, paragraphs 9-10.

²⁰*Id.* at page 5, paragraph 11.

²¹*Citizens' Utility Bd. V. Illinois Commerce Commission*, 651 N.E.2d 1089 (Ill. 1995), reh'g denied.

reason is that allowing for such recovery serves the best interest of the public, which includes the utility's customers, by encouraging the utility to conduct thorough investigations and cleanups of environmental conditions at MGP sites. This result was obviously the goal of the Commission and its Staff in requiring Kansas Gas Service (in the 486 Docket) to continue the environmental work that WRI had agreed to do under its Consent Order with KDHE.²² In addition, as was found by KDHE in its Consent Order, the historical operations and waste disposal practices at MGP sites, in Kansas, were in accord with common gas industry practices at the time these plants were being operated for the provision of service to the utility's customers, thus the historical stewardship of these MGP sites was prudent.²³ Therefore, cost recovery for Environmental Work performed at these sites should be allowed. Moreover, the costs are being incurred in response to the KDHE Consent Order and this Commission's Order in the 486 Docket instructing the utility to perform the Environmental Work at the MGP sites as required under the Consent Order. The costs incurred by the Company in its compliance with the Consent Order are therefore necessary for the utility to remain in business and thus to provide current service to customers and like other costs of providing current service, they are properly recoverable in rates if found to be prudently incurred. As additional support for recovery of these costs, Kansas Gas Service points out that other public utility commissions that have allowed full recovery have held that environmental clean-up costs relating to MGP sites are "a necessary and ongoing cost of doing business" and should be allowed.²⁴ Finally, the treatment approved by this Commission in the KPS Docket, which allowed the utility to accumulate, defer and recover clean-up costs relating to MGP sites in the utility's next rate case, provided an incentive for the utility to: (1) act prudently in incurring such costs since it effectively

²²586 Docket Order, page 15, paragraph 35.

²³Consent Order, Article III, Statement of Facts, page 5, paragraph 9.

²⁴*Public Service Elec. & Gas Co.*, BRC Docket No. ER91111698J, slip op at 18 (N.J. Bd. Reg. Comm'rs., September 15, 1993) reh'g denied (January 21, 1994); also *New York State Elec. & Gas Corp.*, 90 PUR 4th 322 (N.Y. Pub. Serv. Comm's 1988).

was only allowed to recover 60% of those costs; and, (2) act aggressively in pursuing insurance coverage to reduce costs paid by customers by allowing the utility to retain 40% of the insurance proceeds.

VIII. KANSAS GAS SERVICE'S REQUEST FOR AN ACCOUNTING ORDER TO ACCUMULATE, DEFER AND RECOVER MGP COSTS ASSOCIATED WITH ENVIRONMENTAL WORK PERFORMED AT MGP SITES MANAGED BY KANSAS GAS SERVICE UNDER THE KDHE CONSENT ORDER

20. Kansas Gas Service's request for an Accounting Order to accumulate, defer and recover MGP Costs associated with Environmental Work performed at MGP sites managed by Kansas Gas Service under the KDHE Consent Order is explained in detail in Mr. Dittmore's testimony filed in support of this Application. In summary, Kansas Gas Service is requesting the following with respect to the Accounting Order:

(a) Kansas Gas Service seeks authority to accumulate in account 186, and approval to recover in its subsequent general rate cases, the actual and prudent costs and expenses it incurs beginning on January 1, 2017, on Environmental Work performed under the Consent Order at the twelve (12) MGP sites currently managed by Kansas Gas Service.²⁵

(b) Recovery of the MGP Costs would be amortized over a ten-year period.

(c) The regulatory asset would not accrue carrying charges, nor be included in rate base.

(d) The absence of accrued carrying charges and exclusion from rate base represents an economic cost absorbed by Kansas Gas Service and effectively results in a sharing of the costs between shareholders and customers.

(e) The requested treatment of the MGP Costs as set forth in this Application is

²⁵This would include work performed under any amendments to the Consent Order to add other FMGP sites not covered by the Consent Order.

identical to the treatment approved by the Commission in the KPS Docket for similar clean-up costs incurred in the work performed at an MGP site managed by Kansas Public Service Company.

(f) Kansas Gas Service also seeks authority to continue to use the above-mentioned authority and process beyond the first general rate case in which MGP Costs are recovered to accumulate the MGP Costs incurred in between subsequent rate cases and to present for recovery in each succeeding general rate case following the period in which the MGP Costs were incurred until all of the Environmental Work has been performed at the MGP sites managed by Kansas Gas Service.

(g) Kansas Gas Service will maintain documentation and records in order to track the actual MGP Costs for the Environmental Work performed and will provide such documentation and records to the Staff for its review and verification in the next rate case, in addition to the annual reporting as recommended in Mr. Dittmore's testimony.

(h) Kansas Gas Service proposes that any insurance proceeds that it receives in excess of \$9.49 million (less legal and other costs prudently incurred by ONE Gas in obtaining the insurance proceeds) be shared between its shareholders and the customers similar to what was approved by the Commission in the 1993 KPS Docket, with 60% of the proceeds credited to customers and 40% assigned to shareholders.

(i) The 60% of the insurance proceeds credited to the customers shall be used to reduce the regulatory asset and subsequently reduce the amortization costs incurred by customers. The portion of insurance proceeds retained by Kansas Gas Service would be credited to account 421 and excluded in the determination of the utility's revenue requirement in subsequent rate proceedings.

21. Mr. Dittmore also explains in his testimony why Kansas Gas Service is seeking this regulatory treatment at this time. He testifies that between November 1, 1997 and December 31, 2016, the utility spent \$10.75 million of the \$12.6 million recorded as an accrued liability. Kansas Gas Service has increased the reserve by \$4.5 million associated with recently identified probable and reasonably measurable MGP Costs. Without the requested accounting order sought in this matter, the recently identified probable and reasonably measurable MGP Costs will have a significant impact on the financial results of Kansas Gas Service and future MGP Costs will likely pose uncertainty on the appropriate level of MGP Costs that would need to be included in subsequent Kansas Gas Service rate cases.

22. Mr. Dittmore further explains how the regulatory treatment requested herein will benefit customers. Because MGP Costs may vary greatly from year to year, this raises uncertainty as to whether those costs incurred during the test period used in a general rate case would be representative of ongoing costs. Moreover, the ten-year amortization period will spread the costs over a longer period of time and reduce the impact to customers. Finally, the fact that there will be no carrying charges and no rate base treatment of the costs results in a sharing of the costs between the Company and its customers. Similarly, as discussed in the Commission's Docket No. 185,507-U, (Kansas Public Service, a division of UtiliCorp United Inc.), the sharing mechanism relating to future insurance proceeds will provide an incentive to the Company to be as aggressive as possible in obtaining proceeds from the insurance companies, which will reduce that portion of the costs paid by customers.

IX. STATUS OF POTENTIAL RECOVERY OF PROCEEDS FROM INSURANCE COMPANIES AND KANSAS GAS SERVICE'S PROPOSAL FOR THE TREATMENT OF SUCH PROCEEDS

23. As part of his testimony, Mr. Smith includes an exhibit that identifies the insurance

companies who may be responsible for coverage of MGP Costs incurred by the utility. Mr. Smith outlines the utility's theory of coverage as the policyholder under the insurance policies that have been identified. He also provides a summary of some of the defenses that have been made by insurance companies and how some of those defenses have been considered by the courts. Mr. Smith identifies the amount of insurance proceeds that the utility has recovered to date and why the utility accepted those proceeds when it did. He also explains the reasons why ONE Gas has been cautious in seeking proceeds from the insurance companies has been due to the difficulty in estimating future MGP Costs and the reluctance of insurance companies to enter into partial settlements with the utility. Mr. Smith discusses the utility's plan in moving forward with potential recovery of proceeds from the insurance companies. Finally, Mr. Smith identifies the amount of MGP Costs that Kansas Gas Service's shareholders have paid through December 31, 2016 (\$10.75 Million), and the amount of MGP Costs that ONE Gas has identified as probable and reasonably measured a total of \$5.9 million of which \$4.5 million has been recently added.

24. Kansas Gas Service's proposal for treatment of insurance proceeds received for coverage of MGP Costs is set forth in detail in Mr. Dittmore's testimony. As explained by Mr. Dittmore, Kansas Gas Service is seeking the identical treatment that was approved by the Commission in the KPS Docket, after recognition of the first \$9.49 million in insurance proceeds. In summary, that treatment includes the following:

(a) An acknowledgement that Kansas Gas Service has not included MGP Costs in the utility's cost of service for recovery in rates for the past 20 years. The MGP Costs have been paid by the utility's shareholders and they should be entitled to the insurance proceeds up to the net unrecovered balance of \$9.49 million.

(b) Kansas Gas Service seeks approval from the Commission to apply the first \$9.49 million of any proceeds recovered from insurance companies that may be responsible

for coverage under their insurance policies for the MGP Costs incurred by Kansas Gas Service that Kansas Gas Service has incurred from 1997 through the end of 2016.

(c) Kansas Gas Service proposes that any insurance proceeds that it receives in excess of \$9.49 million after deducting legal fees, consultant and expert witness fees and other costs prudently incurred in obtaining the insurance proceeds be shared between its shareholders and the customers similar to what was approved by the Commission in the KPS Docket.

(d) The Commission would allow the utility to keep 40% of the insurance proceeds in order to encourage the utility to recover as much as reasonably possible from the insurance companies.

(e) The 60% of the insurance proceeds credited to the customers shall be used to reduce the regulatory asset and subsequently reduce the amortization costs incurred by customers.

The portion of insurance proceeds retained by Kansas Gas Service would be credited to account 421 and excluded in the determination of the utility's revenue requirement in subsequent rate proceedings.

X. CONCLUSION

25. Kansas Gas Service seeks an order from the Commission authorizing the accounting and rate recovery treatment requested herein. Kansas Gas Service further requests that the Commission authorize it to apply the first \$9.49 million of proceeds recovered from the insurance companies that may be responsible for covering the MGP Costs incurred by Kansas Gas Service at the MGP sites to those MGP Costs paid for by the shareholders between November 1, 1997 and December 31, 2016, and to share any insurance proceeds that exceed \$9.49 million, after deducting prudently incurred costs to obtain such proceeds, between Kansas Gas Service's customers and

shareholders, with 60% of the proceeds credited to the customers and 40% retained by the shareholders.

WHEREFORE, Kansas Gas Service respectfully requests that the Commission issues 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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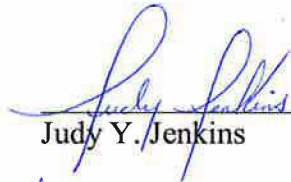
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ATTORNEYS FOR KANSAS GAS
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VERIFICATION

STATE OF KANSAS)
) **ss:**
COUNTY OF JOHNSON)

The undersigned, upon oath first duly sworn, states that she is the attorney for Kansas Gas Service, a Division of ONE Gas, Inc., that she has read the foregoing **Application**, that she is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of her knowledge and belief.



Judy Y. Jenkins

Subscribed and sworn to before me this 10th day of April, 2017.



Notary Public

My Appointment Expires:



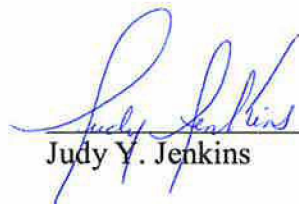
CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via U.S. Mail, postage prepaid, hand-delivery, or electronically, this 11th day of April, 2017, addressed to:

Andrew J. French
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