

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

DIRECT TESTIMONY

OF

**DAVID N. DITTEMORE**

ON BEHALF OF

KANSAS GAS SERVICE,  
A DIVISION OF ONE GAS, INC.

**DIRECT TESTIMONY**  
**OF**  
**DAVID N. DITTEMORE**  
**KANSAS GAS SERVICE**  
**DOCKET NO. 17-KGSG-\_\_\_-ACT**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is David N. Dittmore. My business address is 7421 West 129<sup>th</sup> Street, Overland  
4 Park, Kansas, 66213.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Kansas Gas Service a Division of ONE Gas Inc. (“ONE Gas” or “OGS”)  
7 (“Kansas Gas Service” or “KGS” or “Company”). I am the Director of Rates and  
8 Regulatory Affairs.

9 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**  
10 **EXPERIENCE.**

11 A. I received a Bachelor of Science Degree in Business Administration with a major in  
12 Accounting from the University of Central Missouri in 1982. I am a Certified Public  
13 Accountant. I was previously employed by the Kansas Corporation Commission  
14 (“Commission” or "KCC") in various capacities including Managing Auditor, Chief  
15 Auditor and Director of Utilities. During my career, I have been employed by WorldCom  
16 (telecommunications) and the Williams Companies (Williams Energy Marketing and  
17 Trading). Also, from 2003 – 2007, I was self-employed providing regulatory consulting

1 services on behalf of clients dealing with telecommunications, electric and natural gas  
2 regulatory issues. Since 2007, I have been employed by Kansas Gas Service.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 A. Yes, I have testified before the Commission on a number of occasions.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to support the Company's request to seek approval of an  
7 accounting order authorizing the accumulation, deferral and recovery of costs -incurred  
8 after January 1, 2017, associated with the Company's obligation to perform environmental  
9 investigating, testing, monitoring, remediating and other work ("MGP Work") associated  
10 with the Manufactured Gas Plant ("MGP") sites managed by Kansas Gas Service ("MGP  
11 Costs") under the Consent Order with the State of Kansas Department of Health and  
12 Environment ("KDHE") issued in Case No. 94-E-0172 (1994), and the amendments thereto  
13 (collectively referred to as the "Consent Order"). The former MGP sites that are now the  
14 responsibility of KGS were facilities used in the late 1800's through 1930 to manufacture  
15 the fuel used in the provision of utility service to Kansas customers.

16 The application includes a request to recover such MGP Costs in future rate cases,  
17 consistent with prior KCC ratemaking determinations. My testimony identifies the  
18 regulatory and policy principles that support the request being made by the Company in  
19 this docket. Further, I provide testimony supporting the request that the Company be  
20 permitted to retain the first \$9.49 million in insurance proceeds to compensate for historic  
21 amounts spent by ONE Gas and its predecessor ONEOK, Inc. ("ONEOK"), net of  
22 insurance recoveries, related to the MGP Work performed at the MGP sites in compliance  
23 with the Consent Order. This amount is set forth in Exhibit MWS-3 and is supported by

1 OGS witness Mr. Mark Smith. My testimony also includes the request to share insurance  
2 proceeds in excess of \$9.49 million (increased by the amount of future legal, consultant  
3 and expert witness fees incurred in the pursuit of insurance recoveries) between Kansas  
4 Gas Service's customers and shareholders, consistent with KCC precedent. Finally, I  
5 explain how the request made in this docket will benefit the customers and the public  
6 generally.

7 **Q. PLEASE IDENTIFY THE OTHER WITNESSES WHO ARE SPONSORING**  
8 **TESTIMONY IN SUPPORT OF THE APPLICATION.**

9 A. Mr. Jim Haught, Director of Environmental Compliance for ONE Gas, provides: a history  
10 of the manufactured gas industry in Kansas; an overview of the MGP sites managed by  
11 Kansas Gas Service under the Consent Order; a time line relating to the Consent Order; a  
12 description of the MGP Work that has been performed to date; and a discussion of the current  
13 status of MGP Work at each of the MGP sites which includes a 36-month tentative schedule  
14 (as agreed upon by Kansas Gas Service and KDHE). Mr. Haught also explains why it is  
15 extremely difficult to estimate the total MGP Costs the Company will incur and provides a  
16 description of the oversight and involvement of KDHE associated with its regulatory role in  
17 the ongoing review and remediation of the MGP sites.

18 Mr. Mark W. Smith, Vice President Treasury for ONE Gas, provides testimony  
19 regarding the possibility of recovery of MGP Costs from various insurance companies that  
20 provided liability coverage to the utility's predecessors over the years. He explains the basis  
21 for making such claims and the defenses that insurance companies have raised against such  
22 claims in various cases filed by other gas utilities. Mr. Smith also testifies as to the amount  
23 of proceeds that the Company has collected from insurance companies to date and the reason

1 why the Company decided to collect those proceeds when it did. Further, Mr. Smith explains  
2 the Company's reluctance at this point to settle with insurance companies. Mr. Smith sets  
3 forth the Company's plan related to future insurance recovery efforts.

4 Finally, Mr. Smith identifies and discusses the amount of MGP Costs that Kansas  
5 Gas Service has spent through December 31, 2016 (\$10.75 million), and the \$5.9 million  
6 probable and reasonably measurable amount that Kansas Gas Service will be spending on  
7 MGP Costs, which costs have been accrued as a liability in the financial statements of  
8 Kansas Gas Service. As noted by both Mr. Haught and Mr. Smith, the total remaining MGP  
9 Costs are not known at this time with any degree of certainty, which is one of the reasons  
10 that the Company is seeking an accounting order in this matter.

11 **Q. PLEASE IDENTIFY THE SECTIONS OF YOUR TESTIMONY.**

12 A. My testimony contains the following sections:

13 Section I. Introduction

14 Section II. Accounting for MGP Costs

15 Section III. Summary of MGP Costs Incurred by Company Between 1997 and the end  
16 of 2016

17 Section IV. Overview of Accounting Pronouncements Associated with the Regulatory  
18 Accounting Order Request

19 Section V. Prior KCC Regulatory Treatment of MGP Costs

20 Section VI. Regulatory Request Being Made in This Application, Including the  
21 Treatment of Insurance Proceeds

22 Section VII. Recommended Ongoing Reporting Requirements

23 Section VIII. Customer Benefits

1 **II. ACCOUNTING FOR MGP COSTS**

2 **Q. HOW HAVE THE MGP COSTS BEEN ACCOUNTED FOR ON THE BOOKS OF**  
3 **KANSAS GAS SERVICE?**

4 A. ONEOK, the predecessor company to ONE Gas<sup>1</sup>, pursuant to generally accepted  
5 accounting procedures, established an accrued liability or environmental reserve of \$12.6  
6 million in its financial records in 1997, at the time it acquired the gas properties owned by  
7 Western Resources (“WRI”) (predecessor company to Westar Inc. (“Westar”)). This initial  
8 liability represented an estimate, based on facts known to the parties in 1997, of costs  
9 associated with environmental issues, including the MGP sites for which KGS is  
10 responsible. As funds were spent in the subsequent years, the accrued liability was  
11 reduced.

12 **Q. WERE ANY OF THE MGP COSTS PAID BY THE COMPANY BETWEEN**  
13 **NOVEMBER 1, 1997 AND DECEMBER 31, 2016, INCLUDED IN BASE RATES**  
14 **AND RECOVERED FROM CUSTOMERS?**

15 A. No. Kansas Gas Service has not sought recovery from its customers for any of the MGP  
16 Costs incurred by the Company between November 1, 1997 and December 31, 2016. As  
17 costs were incurred, the accrued liability was reduced, with the offsetting credit entry to  
18 cash. Neither of these accounts is included within the revenue requirement calculation.

19 **Q. HAS NEW INFORMATION ARISEN REQUIRING AN INCREASE IN THE**  
20 **LIABILITY RESERVE?**

21 A. Yes. In the third and fourth quarters 2016, KGS recorded an additional liability totaling  
22 \$4.5 million, which reflects the estimate of additional MGP Costs identified in 2016,

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<sup>1</sup> ONE Gas was established in 2014. The transfer of the Kansas Gas Service division assets and certificates of convenience and necessity from ONEOK to ONE gas was approved by the KCC in Docket No. 14-KGSG-100-MIS

1 bringing the total reserve balance to \$5.9 million. This accrual is recorded pursuant to  
2 Accounting Standards Codification (ASC) 410-30, Environmental Obligations, which  
3 requires the establishment of an accounting liability for obligations associated with  
4 environmental remediation liabilities that relate to pollution arising from some past act.

5 **Q. HAS THE ACCRUED LIABILITY REFERENCED ABOVE RESULTED IN AN**  
6 **INCREASE IN KGS' OPERATING EXPENSES?**

7 A. Yes. The offsetting accounting entry to the liability is an increase in KGS operating  
8 expenses (\$4.5 million). The increased operating expense, recorded in 2016, reduced  
9 KGS' operating income. Absent the accounting treatment requested in this application,  
10 any future costs that are identified and become measurable will increase the operating  
11 expenses of KGS and likely pose uncertainty on the appropriate level of MGP Costs  
12 included in subsequent KGS rate case filings, to the detriment of both the Company and its  
13 customers.

14 **III. SUMMARY OF MGP COSTS INCURRED BY COMPANY BETWEEN 1997 AND**  
15 **THE END OF 2016**

16 **Q. PLEASE IDENTIFY THE MGP COSTS INCURRED BY THE COMPANY**  
17 **BETWEEN NOVEMBER 1, 1997 AND DECEMBER 31, 2016.**

18 A. Exhibit MWS-3, as attached to the Direct Testimony of Mark Smith, sets forth the  
19 summary of MGP Costs incurred between November 1, 1997 and December 31, 2016. As  
20 shown on the bottom of Exhibit MWS-3, the total MGP costs during this period were  
21 \$10.75 million, while the associated insurance proceeds were \$1.26 million, leaving a net  
22 balance of MGP costs not covered by insurance proceeds of \$9.49 million.

1 **IV. OVERVIEW OF ACCOUNTING PRONOUNCEMENTS ASSOCIATED WITH**  
2 **THE REGULATORY ACCOUNTING ORDER REQUEST**

3 **Q. CAN YOU SUMMARIZE THE UNDERLYING ACCOUNTING REQUIREMENTS**  
4 **THAT WOULD PERMIT KGS TO CAPTURE THE MGP COSTS INCURRED**  
5 **AFTER JANUARY 1, 2017, AS A REGULATORY ASSET?**

6 A. Yes. In December 1982, the Financial Accounting Standards Board (FASB) issued  
7 Statement of Financial Accounting Standards No. 71 (FAS 71).<sup>2</sup> In pertinent part, the  
8 accounting pronouncement stated that actions of a regulator can provide reasonable  
9 assurance of the existence of an asset that would otherwise be charged to expense, if two  
10 criteria were met:<sup>3</sup>

- 11 1) It is probable that future revenue in an amount at least equal to the capitalized  
12 cost will result from future rate-making proceedings; and  
13 2) Future revenue would be provided to permit recovery of previously incurred  
14 (specific) costs.

15 Therefore, a determination by a utility regulatory agency on the recoverability of a cost  
16 may justify the creation of a regulatory asset under the provisions of FAS 71 (ASC 980).  
17 In the situation confronting KGS, absent such an accounting order from the KCC, Kansas  
18 Gas Service would continue to record MGP Costs as an operating expense on its books.

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<sup>2</sup> In 2009, the FASB codified its previously issued pronouncements into a system known as Accounting Statement Codification (ASC). The text of previously issued FAS No. 71 was incorporated into the new identification system without alteration. The FAS 71 text was incorporated into ASC 980.

<sup>3</sup> The pronouncement also provides guidance on those situations in which a regulatory decision may cause the creation of a regulatory liability or the write-down of an asset.



1 **Q. HOW WOULD MGP COSTS BE INCORPORATED IN FUTURE RATE CASE**  
2 **PROCEEDINGS IF AN ACCOUNTING ORDER IS NOT APPROVED?**

3 A. If the KCC does not approve this request, KGS would request recovery of MGP Costs in  
4 future rate proceedings. However, as discussed later in my testimony, these costs may vary  
5 significantly from year-to-year. Because of this cost variance, there would always be  
6 uncertainty as to whether the test period costs used to set rates were representative of  
7 ongoing operations. While there are always utility costs that vary from year-to-year, the  
8 recently identified probable and reasonably measured MGP Costs are significant to Kansas  
9 Gas Service-, and therefore, warrant special regulatory treatment. Specifically, the request  
10 is to defer such costs, along with future, yet to be identified MGP Costs (which could be  
11 significant), to a future rate case proceeding, at which time they would be amortized into  
12 the KGS revenue requirement. The proposal I am sponsoring to spread the costs to  
13 customers through adoption of a ten-year amortization period has benefits for KGS  
14 customers, as will be discussed in greater detail in Section VIII of my testimony.

15  
16 **V. PRIOR KCC REGULATORY TREATMENT OF MGP COSTS**

17 **Q. HAS THE KCC PREVIOUSLY ADDRESSED THE RATEMAKING TREATMENT**  
18 **OF MGP COSTS?**

19 A. Yes, in Docket No. 185,507-U, Kansas Public Service, a division of UtiliCorp United Inc.,  
20 (“KPS”) sought permission to establish a miscellaneous deferred debit<sup>4</sup> to capture  
21 investigative and potential remediation costs at an MGP site that would otherwise be

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<sup>4</sup> A miscellaneous deferred debit is identical to the request in this application for approval to establish a regulatory asset.

1 expensed. KPS further requested the KCC authorize a surcharge to collect these costs from  
2 customers over an appropriate amortization period.

3 **Q. CAN YOU SUMMARIZE THE KCC'S FINDINGS IN THIS DOCKET?**

4 A. Yes. The Commission's order found that the clean-up costs relating to KPS' MGP site  
5 should be deferred and deemed eligible for recovery in its next rate proceeding, subject to  
6 KCC review. The KCC adopted Staff's recommendation that the total amount of deferred  
7 costs should be amortized over a ten-year period for ratemaking purposes. Further, the  
8 KCC ruled that these costs should not accrue carrying charges, nor be included in rate base  
9 in future rate case proceedings. The KCC found that since shareholders were foregoing a  
10 return on the costs associated with the MGP site, there was an effective sharing of costs  
11 (60/40) between customers and shareholders. The Commission also found that any  
12 subsequent insurance recoveries should be shared 60/40 between customers and  
13 shareholders in order to provide the utility an incentive to aggressively seek recovery from  
14 the insurance companies. Exhibit DND-1 contains a copy of the KCC order in this docket.

15  
16 **VI. REGULATORY REQUEST BEING MADE IN THIS APPLICATION,**  
17 **INCLUDING THE TREATMENT OF INSURANCE PROCEEDS**

18 **Q. PLEASE DESCRIBE THE REGULATORY APPROVAL SOUGHT IN THIS**  
19 **APPLICATION.**

20 A. KGS seeks authority from the KCC to establish a regulatory asset to capture MGP Costs  
21 for work performed at the MGP sites managed by Kansas Gas Service under the terms of  
22 the Consent Order. These costs would include internal and external costs necessary for the  
23 investigation and remediation work at MGP sites. It would also include regulatory costs

1 incurred related to MGP oversight by the KDHE, as well as costs incurred in this KCC  
2 docket. Further, the deferred costs would include those costs incurred in the pursuit of  
3 insurance recoveries. Upon recovery of insurance proceeds in excess of \$9.49 million, the  
4 deferred asset balance would be reduced by the portion of the proceeds attributable to costs  
5 incurred in the pursuit of insurance recoveries.

6 Recovery of these deferred costs would be requested in a subsequent KGS rate  
7 proceeding to be amortized over a ten-year period. The regulatory asset would not accrue  
8 carrying charges, nor be included in rate base in future rate case proceedings. The absence  
9 of accrued carrying charges and exclusion from rate base represents an economic cost  
10 absorbed by KGS and effectively results in a sharing of the costs between shareholders and  
11 customers.

12 KGS also seeks authority and approval to continue tracking MGP Costs incurred  
13 beyond the initial rate case for review and recovery approval in subsequent KGS rate case  
14 proceedings.

15 Additionally, as it relates to future insurance recoveries, in excess of the sum of  
16 \$9.49 million, plus the costs incurred in the pursuit of insurance recoveries, KGS seeks  
17 approval to share the recoveries in a 60/40 sharing between customers (60%) and  
18 shareholders (40%). The portion credited to customers would be used to reduce the  
19 regulatory asset and subsequently reduce the amortization costs incurred by customers.  
20 The portion of insurance proceeds retained by the company would be credited to FERC  
21 Account 421 and excluded in the determination of the revenue requirement in subsequent  
22 rate proceedings. The proposed regulatory treatment outlined above is identical to that  
23 contained in the KCC's order in Docket No. 185,507-U.

1 **Q. DISCUSS THE COMPANY’S REQUEST TO RETAIN ONE-HUNDRED**  
2 **PERCENT OF THE FIRST \$9.49 MILLION OF INSURANCE PROCEEDS**

3 A. As discussed earlier, the Company incurred \$10.75 million in MGP Costs between  
4 November 1, 1997 and December 31, 2016. The Company has not requested recovery, nor  
5 has it received any portion of this amount from KGS customers. Therefore, it would not  
6 be appropriate for customers to benefit from the insurance proceeds (in the form of a  
7 reduction in the revenue requirement) when the MGP Costs to date have been solely  
8 absorbed by the Company’s shareholders. KGS is not requesting recovery of these historic  
9 costs in this filing. However, the Company is requesting that insurance proceeds up to the  
10 amount of costs absorbed by our shareholders, be recorded to FERC account 421, which is  
11 specifically excluded from future revenue requirement determinations. This proposed  
12 treatment properly aligns the formal regulatory treatment of the legacy MGP Costs with  
13 the treatment of insurance reimbursements for such costs. Additionally, the Company is  
14 not asking for any carrying cost on the first \$9.49 million.

15 **Q. COULD YOU PLEASE SUMMARIZE THE ASSIGNMENT OF INSURANCE**  
16 **PROCEEDS BETWEEN KGS CUSTOMERS AND KGS SHAREHOLDERS?**

17 A. Yes. As discussed above the first \$9.49 million of insurance proceeds would be assigned  
18 to KGS shareholders, since they have incurred such costs to date. The costs incurred in  
19 recovery of insurance reimbursement would be charged to the deferred asset. Likewise,  
20 insurance recoveries in excess of \$9.49 million will first be assigned to KGS customers  
21 through a credit to the deferred asset account, up to the amount of costs incurred in the  
22 pursuit of insurance recoveries. Finally, insurance recoveries in excess of the sum of \$9.49

1 million plus the costs incurred in the pursuit of insurance recoveries will be shared between  
2 customers and shareholders on a 60% / 40% basis.

3 **Q. IN ADDITION TO THE FACT THAT THE REGULATORY TREATMENT**  
4 **PROPOSED BY KANSAS GAS SERVICE IN ITS APPLICATION MIRRORS THE**  
5 **TREATMENT APPROVED IN DOCKET NO. 185,507-U, ARE THERE OTHER**  
6 **REGULATORY AND POLICY PRINCIPLES THAT SUPPORT THE REQUEST**  
7 **MADE IN THIS MATTER?**

8 A. Yes. The KCC's regulatory determination in Docket No. 185,507-U is consistent with  
9 other public utility commissions' treatment of such costs as allowing for such recovery as  
10 being in the public interest. The recovery mechanism as proposed by KGS encourages the  
11 utility to continue to conduct thorough investigations and cleanups of environmental  
12 conditions at MGP sites. The continuance of the remediation work was the goal of the  
13 KCC and its Staff, as evidenced by the recommendation and requirement that Kansas Gas  
14 Service continue the work that WRI had agreed to do under the Consent Order at the time  
15 ONEOK acquired WRI's gas properties in 1997.

16 Another reason for allowing recovery, as referenced in the testimony of Mr. Jim  
17 Haught, is the fact that according to the KDHE, the historical operations and waste disposal  
18 practices at MGP sites in Kansas were performed in accordance with common gas industry  
19 practices at the time these plants were being operated. Essentially, KDHE recognized in  
20 the 1994 Consent Order that the historical stewardship of these MGP sites was prudent.<sup>5</sup>

21 Therefore, recovery of clean-up costs for work performed at these sites should be allowed.

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<sup>5</sup> See, State of Kansas Department of Health and Environment Consent Order, pg. 5, ¶ 9, effective (Oct.7, 1994), as attached as Exhibit JEH-2 in the Testimony of James Haught.

1           In addition, the MGP Costs being incurred by the Company are being incurred in  
2 response to the KDHE Consent Order and this Commission’s order approving the sale of  
3 WRI’s gas properties to ONEOK, which specifically instructed Kansas Gas Service to  
4 perform the work at the MGP sites as required under the Consent Order. These costs are  
5 therefore necessary for the utility to remain in business and thus to provide current service  
6 to customers. Like other costs of providing current service, the MGP Costs are properly  
7 recoverable in rates, if found to be prudently incurred. In further support, other public  
8 utility commissions that have allowed full recovery have held that environmental clean-up  
9 costs relating to MGP sites are “a necessary and ongoing cost of doing business” and should  
10 be allowed.<sup>6</sup>

11           Finally, the KCC allowed KPS to accumulate, defer and recover clean-up costs  
12 relating to an MGP site in a future rate case proceeding. The Commission encouraged the  
13 aggressive pursuit of insurance recoveries by splitting the benefits of such proceeds  
14 between the utility and its customers in a 40/60 percent ratio.

15  
16 **VII. RECOMMENDED ONGOING REPORTING REQUIREMENTS**

17 **Q. WILL KGS PROVIDE INFORMATION RELATING TO THE**  
18 **ENVIRONMENTAL WORK PERFORMED AT THE MGP SITES ON AN**  
19 **ANNUAL BASIS TO THE KCC STAFF TO ALLOW MONITORING OF ITS**  
20 **PROGRESS IN REMEDIATING THESE SITES?**

21 **A.** Yes. As discussed in the testimony of Mr. Haught, KGS has worked closely with KDHE  
22 in the ongoing review and remediation efforts at the MGP sites managed by the Company.

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<sup>6</sup> See, footnote 24 in Application.

1 KGS recommends that it make an annual submittal to the KCC, to include: (1) all reports  
2 provided to KDHE during the reporting year; (2) a summary of MGP Costs incurred in the  
3 preceding year; (3) a description of the scheduled MGP Work to be conducted in the  
4 subsequent year as well as a cost estimate for such work; and, (4) the amount of insurance  
5 proceeds received, if any, associated with MGP remediation efforts in the past year.  
6

7 **VIII. CUSTOMER BENEFITS**

8 **Q. EARLIER YOU INDICATED THAT THIS KGS PROPOSAL PROVIDED**  
9 **BENEFITS FOR KGS CUSTOMERS. PLEASE IDENTIFY THE CUSTOMER**  
10 **BENEFITS ASSOCIATED WITH THIS PROPOSAL.**

11 A. First, the proposal would result in an amortized cost to be recovered from customers that  
12 is known, measurable and consistent. In the absence of this accounting order and  
13 regulatory treatment proposed in this application, there may be a question of whether test  
14 period costs represented a normalized level of ongoing MGP Costs to be included in the  
15 KGS' revenue requirement. Because MGP Costs will vary year-to-year, it would be a  
16 challenge to determine an appropriate level to include in base rates. The KGS proposal  
17 would amortize incurred costs over a ten-year period, thus establishing a straight-forward,  
18 consistent approach to annual cost recovery.

19 Next, under this proposal, KGS customers will not incur the total economic cost  
20 associated with MGP expenditures due to the fact that the Company is foregoing a request  
21 for carrying charges and rate base recognition of the unamortized MGP Costs. Therefore,  
22 the Company's shareholders, who thus far have absorbed all of the MGP Costs incurred  
23 between November 1, 1997 and December 31, 2016, would continue to absorb a significant

1 portion of costs going forward under this proposal. The result is an incentive for KGS to  
2 be efficient in managing future MGP Costs.

3 Also, the proposal to share insurance recoveries in excess of \$9.49 million provides  
4 an incentive for KGS to maximize its insurance recoveries to the benefit of both customers  
5 and shareholders. This point was made by the KCC in its order in Docket No. 185,507-U.

6 Finally, the proposal set forth in this application would provide for annual KCC  
7 monitoring of this issue. The KCC Staff and interested intervenors would have access to  
8 the annual reports and would have an opportunity to review the information provided  
9 outside of, and prior to, a rate case proceeding.

10 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

11 **A.** Yes, it does at the current time.



**VERIFICATION**

STATE OF KANSAS        )  
                                  ) ss:  
COUNTY OF JOHNSON    )

David N. Dittmore, being duly sworn upon his oath, deposes and states that he is Director of Rates and Regulatory Affairs for Kansas Gas Service, a Division of ONE Gas, Inc.; that he has read and is familiar with the foregoing Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
David N. Dittmore

SUBSCRIBED AND SWORN to before me this 4<sup>th</sup> day of April, 2017.

  
\_\_\_\_\_  
Notary Public

Commission/Appointment Expires:  
06/05/18



THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION  
JUN 14 1993  
UTILITIES DIVISION

Before Commissioners: Jim Robinson, Chairman  
F.S. Jack Alexander  
Rachel C. Lipman

In the Matter of the Application of  
Kansas Public Service, Division of  
UtiliCorp United, Inc., for Issuance of  
an Accounting Order Relating to its  
Natural Gas Operations - Manufactured Gas  
Plant Site Investigatory and Potential  
Clean Up Costs

) Docket No. 185,507-U  
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ORDER

COMES NOW, the above-captioned matter for consideration and determination by the State Corporation Commission of the State of Kansas (Commission). Having examined its files and records, and being duly advised in the premises, the Commission finds and concludes as follows:

I. INTRODUCTION

1. Kansas Public Service, a Division of Utilicorp United, Inc. (KPS), is a Delaware corporation duly authorized to conduct the business of a natural gas public utility in the State of Kansas pursuant to appropriately issued Certificates of Convenience and Authority by the Commission.

2. On February 4, 1993, KPS filed an application seeking authority from the Commission to implement certain accounting procedures in connection with its gas operations. More specifically, KPS seeks recovery of environmental clean up costs at the site of a former manufactured gas plant. Currently, this property is used for KPS' warehouse, garage, storeroom, operations facilities, company vehicle parking and storage. At the present time, clean up efforts are still in an investigatory stage, and

the full extent of the clean up costs is unknown. KPS is currently estimating the costs of up to \$200,000 for the detailed site investigation.

## II. ANALYSIS

### A. KPS' Proposed Recovery

3. KPS requested that it be allowed to accumulate the investigatory and potential remedial environmental clean up costs and associated carrying costs into a Miscellaneous Deferred Debit account. KPS requested authorization to use a tariff rider or surcharge, to be true-up and reconciled annually which would recognize costs incurred over the twelve-month period to be surcharged over "an equitable amortization period." As an alternative to the tariff rider amortization, KPS suggested a mechanism similar to the PGA clause.

4. As its "least acceptable alternative," KPS proposed that it be allowed to amortize the deferred clean up costs concurrent with recovery from ratepayers after its next rate case. KPS responded in a data request that if significant remediation costs are not needed, a three-year amortization period would be reasonable. If a rate case was filed prior to completion of the clean up remediation, KPS proposed to use an estimate and true-up of such costs.

### B. Commission Staff's Investigation and Recommendations

5. The Commission staff (Staff) investigated KPS' application, and on April 16, 1993 submitted its recommendations

to the Commission for consideration and determination. Staff noted the following issues for the Commission's attention:

Cost Sharing

6. The issue of who should bear the costs for environmental clean up resulting from a site where previously a manufactured gas plant was operated yet no longer exists and therefore no longer provides service to the utility's customers poses a unique situation. Generally, costs which are allowed deferral and recovery by ratepayers result from the provision of current services to the benefit of the utility's current and future customers. In the instant case, however, the costs of environmental remediation relate to a plant which ceased providing service to customers over approximately 40 years ago. KPS' current ratepayers are not the sole benefactors of such environment remediation; all residents and visitors in the area will benefit. Yet the company is requesting that its ratepayers bear the total burden of the related clean up costs.

7. KPS stated in its application that "[t]he economic problem faced by KPS results from governmental mandates requiring compliance and such compliance causes cash flow problems for KPS." KPS appears to use this as a basis for requesting total recovery of the clean up costs from ratepayers. Staff argued, however, that this "economic problem" is not just the result of external governmental mandates. It is the direct result of the decisions and actions of the utility in the treatment of waste products at the former manufactured gas plant site -- even if such procedures

may have been in conformity with common utility practice at the time.

8. Staff maintains that in its proposal for cost recovery, KPS is attempting to shift the total responsibility of these clean up costs to ratepayers. KPS is not willing to bear any of the risks or associated costs which are now being incurred as a result of its prior management decisions and actions related to the manufactured gas plant site. Staff submitted that KPS must bear some of the responsibility and related costs of the environmental damages now in need of remediation. Staff believes this should be equitably accomplished through a sharing of the clean up costs between KPS and its ratepayers.

Recovery Mechanism

9. Staff indicated that this sharing between ratepayers and shareholders can be best accomplished by utilizing a ten-year amortization period and by disallowing carrying charges and rate base treatment on the deferred clean up costs. Disallowing carrying costs on the deferred expenses and excluding the unamortized balance of the deferral from rate base would represent a "cost" to the shareholders because KPS would not be allowed to earn a return on the deferral. However, this treatment would allow KPS to recover the total clean up costs in nominal dollars from ratepayers yet not allow the company to recognize a profit as a result of these costs.

10. This methodology results in a sharing of costs of approximately 60% by ratepayers and 40% by shareholders.

Insurance Reimbursements

11. Staff noted that there is a possibility that KPS may be able to recover some of its clean up costs through insurance reimbursements. Utilicorp has notified its insurance carriers of the potential liability and is seeking reimbursement for all possible property damage. In order to encourage the company to continue to seek reimbursement for property damage, Staff recommended that the proceeds from such insurance reimbursements be shared between ratepayers and shareholders in the same ratio that the clean up costs are shared. In other words, 60% of the insurance reimbursements would flow to ratepayers and the company would be allowed to retain the remaining 40%.

Sale of Land and Structures

12. The former manufactured gas plant site is located on land which is to be sold to the City of Lawrence for a highway construction project. In order to equitably offset the clean up costs, Staff recommended that if the sale of this land and structures results in a gain, such gain be shared between ratepayers and shareholders in the same ratio that the clean up costs are shared, that is, 60% to ratepayers and 40% to shareholders.

Magnitude of Potential Clean Up Costs in Kansas

13. KPS is the first utility in Kansas which has requested recovery of manufactured gas plant clean up costs. Staff noted that while the estimated amount of \$200,000 appears relatively small, the costs may escalate rapidly for remedial action

depending upon the results of the site investigation. Further, there are many other former manufactured gas plant sites in Kansas for which clean up costs will be necessary. Staff reminded the Commission that the treatment of the recovery of these costs may be a significant factor in utility rates across the state in the future.

### III. FINDINGS AND CONCLUSIONS

14. The Commission concurs with Staff that a sharing of the clean up costs associated with KPS' investigation of a former manufactured gas plant site between ratepayers and shareholders is appropriate. To that end, the Commission finds that Staff's proposed recovery mechanism, described above, achieves an equitable end result, that is, a sharing of costs and any reimbursements or gains of approximately 60% by ratepayers and 40% by shareholders.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

15. KPS is required to establish a miscellaneous deferred debit account in which to record actual costs incurred in the clean up of the manufactured gas plant site. These costs are subject to approval in KPS' next general rate case.

16. KPS is allowed to amortize the actual costs over a period of ten years, beginning with the date new rates will become effective. The unamortized balance of the clean up deferral is not permitted as a component of rate base.

17. Carrying charges are not allowed on the unamortized balance of the clean up deferral.

18. Costs incurred subsequent to the test year in KPS' next general rate case are required to be recorded in a separate miscellaneous deferred maintenance account and are subject to approval in KPS' next general rate case. KPS is allowed to recover these costs in the same manner described above.

19. In addition to the recovery of clean up costs, any insurance reimbursements or gains from the sale of the manufactured gas plant site are to be shared 60% by ratepayers and 40% by shareholders.

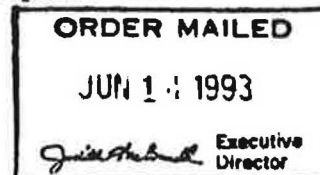
20. Any party has fifteen days, plus three days if service of this order is by mail, from the date of this order in which to request rehearing on any matter decided herein.

21. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Robinson, Chm.; Alexander, Com.; Lipman, Com.

Dated: JUN. 14 1993



Judith McConnell  
Executive Director

SBC