

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) Docket No. 17-KGSG-455-ACT
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)

DIRECT TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

KANSAS CITIZENS' UTILITY RATEPAYER BOARD

September 8, 2017

TABLE OF CONTENTS

	Page
I. Statement of Qualifications	3
II. Purpose of Testimony	4
III. Summary of Conclusions and Recommendations	5
IV. Discussion of the Issues	
A. Overview of the Application	6
B. History of the MGP Sites	9
C. Insurance Proceeds	14
D. Analysis of the Company's Proposal	16

Appendix A - List of Prior Testimonies

Appendix B – Referenced Data Requests

1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard,
4 #401, Ft. Lauderdale, FL 33306.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in
8 utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and
9 undertake various studies relating to utility rates and regulatory policy. I have held several
10 positions of increasing responsibility since I joined The Columbia Group, Inc. in January
11 1989. I became President of the firm in 2008.

12
13 **Q. Please summarize your professional experience in the utility industry.**

14 A. Prior to my association with The Columbia Group, Inc., I held the position of Economic
15 Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to
16 January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic
17 (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product
18 Management, Treasury, and Regulatory Departments.

19
20 **Q. Have you previously testified in regulatory proceedings?**

21 A. Yes, since joining The Columbia Group, Inc., I have testified in over 400 regulatory

1 proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas,
2 Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode
3 Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia.
4 These proceedings involved gas, electric, water, wastewater, telephone, solid waste, cable
5 television, and navigation utilities. A list of dockets in which I have filed testimony since
6 January 2008 is included in Appendix A.

7
8 **Q. Have you previously testified in regulatory proceedings in Kansas?**

9 A. Yes, I have. I have testified in numerous proceedings in Kansas. I have testified in utility
10 proceedings involving Black Hills Energy, Kansas Gas Service, Atmos Energy, Westar
11 Energy, Kansas City Power and Light Company, and others.

12
13 **Q. What is your educational background?**

14 A. I received a Master of Business Administration degree, with a concentration in Finance, from
15 Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in
16 Chemistry from Temple University.

17
18 **II. PURPOSE OF TESTIMONY**

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The Columbia Group, Inc. was engaged by the Citizens' Utility Ratepayer Board ("CURB") to
21 review the Application filed on April 11, 2017 by Kansas Gas Service ("KGS" or

1 “Company”) and to provide recommendations for consideration by the Kansas Corporation
2 Commission (“KCC”). In its Application, KGS is seeking an accounting order to permit the
3 accumulation, deferral and recovery of costs incurred after January 1, 2017 relating to the
4 investigation, testing, monitoring, and environmental remediation of twelve Manufactured
5 Gas Plant (“MGP”) sites used in the past to manufacture gas. My testimony addresses
6 financial, ratemaking, and regulatory policy issues relating to the Application.
7

8 **III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

9 **Q. What are your conclusions and recommendations regarding the Company’s Application
10 and the related approvals being requested in this case?**

11 A. Based on my review of the Application, of responses to data requests propounded by the
12 parties, and of other documentation, my conclusions and recommendations are:

- 13 • The KCC should deny the Company’s request to defer costs associated with
14 remediation of MGP sites.
- 15 • Shareholders, not ratepayers, should be responsible for costs associated with the
16 twelve sites that are the subject of the Application.
- 17 • Since shareholders should be responsible for remediation costs, shareholders should
18 also retain any insurance proceeds related to these environmental claims.
- 19 • If the KCC decides to permit the Company to recover a portion of the remediation
20 costs from ratepayers, then future deferrals should be limited to 50% of actual
21 remediation costs.

- 1 • If the KCC decides to permit the Company to recover a portion of the remediation
2 costs from ratepayers, then the deferral should be credited with 50% of all future
3 insurance proceeds.
- 4 • The KCC should consider requests for ratemaking treatment associated with deferred
5 balances in future base rate case proceedings, when the actual costs can be reviewed
6 by the parties.

7

8 **IV. DISCUSSION OF THE ISSUES**

9 **A. Overview of the Application**

10 **Q. Please provide an overview of the Application.**

11 A. KGS, a division of One Gas, Inc., provides natural gas service to approximately 635,000
12 customers in 360 communities in Kansas. The Company’s predecessors have a long history of
13 providing natural gas service in Kansas, western Missouri and northeastern Oklahoma. KGS
14 was formed in 1997 when ONEOK, Inc. purchased the natural gas assets of Western
15 Resources, Inc. (“WRI”). ONEOK subsequently spun off KGS and two other distribution
16 companies, Oklahoma Natural Gas Company and Texas Gas Service, in 2014 to form One
17 Gas.

18 The Company is requesting an accounting order from the KCC that would allow it to
19 defer costs incurred after January 1, 2017 related to investigating, testing, monitoring, and
20 remediating twelve MGP sites that were used in the production of natural gas prior to the
21 acquisition of the natural gas assets from WRI. The environmental remediation is being

1 performed pursuant to a Consent Order between WRI and the Kansas Department of Health
2 and Environment (“KDHE”), signed on October 7, 1994, as well as several subsequent
3 amendments. ONEOK acquired these facilities from WRI in a transaction approved by the
4 KCC on October 15, 1997 in Docket No. 97-WSRG-486-MER.

5 KGS is seeking to defer all costs associated with the environmental work incurred
6 after January 1, 2017. In its Application, the Company states that recovery of any deferral
7 would be requested in subsequent base rate case filings. KGS proposes that deferred costs be
8 amortized over a ten-year period, without carrying costs. KGS claims that the absence of
9 carrying costs results in an effective 60% / 40% sharing of such costs between ratepayers and
10 shareholders. The Company claims that its requested ratemaking treatment is identical to the
11 ratemaking treatment authorized by the KCC in KCC Docket No. 185,507-U for similar work
12 performed by sites managed by Kansas Public Service Company (“KPS”).¹

13
14 **Q. What categories of costs is the Company seeking to defer in this case?**

15 A. As discussed on pages 9-10 of Mr. Dittmore’s testimony, in addition to the direct costs of the
16 remediation activities, the Company is also proposing to recover regulatory costs incurred
17 related to oversight by the KDHE, regulatory costs incurred in this docket, and costs incurred
18 in the pursuit of insurance proceeds.

¹ The Order in KCC Docket No. 185,507-U was issued July 14, 1993.

1 **Q. How much has KGS spent on remediation activities to date?**

2 A. KGS spent \$10.75 million from November 1, 1997 through December 31, 2016. During this
3 period, the Company also received insurance proceeds of \$1.26 million. In addition to its
4 request for an accounting order, KGS is also seeking to retain the next \$9.49 million in
5 insurance proceeds so that shareholders can be fully compensated for the costs spent to date
6 relating to these remediation activities. The Company is recommending that any additional
7 insurance proceeds, after the first \$9.49 million, be shared 60% to ratepayers and 40% to
8 shareholders, “after deducting legal fees, consultant and expert witness fees and other costs
9 prudently incurred in obtaining the insurance proceeds”.²

10

11 **Q. What is the basis for the 60/40 split proposed by KGS?**

12 A. KGS claims that the 60/40 split proposed for the insurance proceeds is consistent with the
13 order in the KPS Docket referenced above.

14

15 **Q. What reporting requirements is the Company proposing in the event that its proposal is
16 approved?**

17 A. As discussed on page 14 of Mr. Dittmore’s testimony, the Company is proposing to make an
18 annual submittal to the KCC that would include: 1) the reports provided to the KDHE during
19 the reporting year, 2) a summary of the remediation costs incurred, 3) a description of the
20 work projected for the upcoming year, as well as a cost estimate, and 4) the amount of

2 Application, page 4.

1 insurance proceeds received in the prior year.

2
3 **B. History of the MGP Sites**

4 **Q. What gave rise to the MGP sites that are the subject of this Application?**

5 A. Beginning in the mid-1800s, gas was manufactured by a process that used coal, or coal and
6 petroleum, to produce gas for local lighting and heating. This process was used until the early
7 1900s. The EPA estimates that manufactured gas plants operated at over 1,500 locations in
8 the United States. Unfortunately, the process, which was used to manufacture the gas,
9 produced by-products and residuals that were subsequently identified as environmental
10 hazards. By-products and residuals of the MGP process were generally stored on-site. The
11 advent of pipelines eliminated the need for local MGP facilities.

12
13 **Q. Please describe the specific sites managed by KGS.**

14 A. KGS manages the following twelve sites: Abilene, Atchinson, Concordia, Emporia,
15 Hutchinson, Junction City, Kansas City, Leavenworth, Manhattan, Parsons, Salina, and
16 Topeka.³ Ownership and/or operation of the sites can be traced back to KGS and WRI
17 predecessors. KGS owns the real property at six of the sites, while the other six sites are
18 currently owned by third parties.

3 On page 7 of its Application, KGS states that the KDHE has contacted the Company about an additional site in Ottawa. However, KGS has determined that that the Ottawa site was not owned by KGS or its predecessor. The Ottawa site is not included in its request for deferred ratemaking treatment.

1 The first MGP site in Kansas opened in 1869. The first KGS MGP site included in
2 the Application was opened in the late 1880s and the last MGP plant included in the
3 Application was closed by 1930. As discussed in the testimony of Mr. Haught, the process
4 used to manufacture gas left behind substances such as coal ash, clinkers, coal and oil tars,
5 lampblack, ammonia, cyanide compounds and emulsions of oil or tar in water. Some of these
6 materials had residual value and were sold. However, the items that could not be sold were
7 stored or disposed of on-site.

8 On October 7, 1994, KDHE and WRI entered into a Consent Order for the Hutchinson
9 and Leavenworth sites whereby WRI agreed to investigate these sites and to undertake
10 remediation activities. In addition, WRI agreed to accept the terms of the Consent Order for
11 additional sites that might be added at a later date. The Parsons site was added to the Consent
12 Order in 1996 and the Kansas City sites were added to the Consent Order in 1996. The
13 remaining eight sites that are the subject of the Application were added in May 2003.

14 When KGS's parent company, ONEOK, Inc., acquired the natural gas business of
15 WRI in 1997, ONEOK agreed "to assume the environmental performance practiced by WRI".
16 At that time, the Consent Order covered five MGP sites, although it was anticipated at that
17 time that additional sites could be added.

18
19 **Q. Did you review the remediation plans for each of the twelve sites included in the**
20 **Application?**

21 **A.** My assignment in this case was limited to the financial and ratemaking aspects of the

1 Application, including the regulatory policy issues relating to recovery of costs for
2 remediating the MGP sites. Therefore, I did not undertake a detailed review of the underlying
3 remediation plans. I did, however, review the costs spent to date as well as the projected
4 costs, and general information about the types of remedial action that has been or will be
5 undertaken at each site.

6 To summarize, as described on page 10 of the Application, KGS has conducted one or
7 more investigations of soil and/or groundwater at each of the twelve sites. Groundwater
8 monitoring wells have been installed at 8 sites. In addition, the Company has completed or
9 addressed removal of the source of the soil contamination at 11 of the 12 sites, and work has
10 begun at the twelfth site. The Company indicated in its Application that “[a]ctive site
11 management will include continued monitoring, investigation and feasible contamination
12 removal and/or onsite treatment until contamination is reduced to a level and extent that
13 human health and the environment can be protected by long-term monitoring and the natural
14 breakdown of contaminants over time.”

15
16 **Q. Was responsibility for any of the MGP sites retained by WRI?**

17 **A.** Yes, as part of the acquisition, WRI and ONEOK entered into an Environmental Indemnity
18 Agreement. In that agreement, the parties identified several properties that had potential
19 environmental issues, although only five properties were covered by the Consent Order at that
20 time. In the Environmental Indemnity Agreement, ONEOK assumed responsibility for sites in
21 Kansas City, Leavenworth, Topeka, Emporia, Parsons, Hutchinson, and Abilene. WRI

1 assumed responsibility for the Newton, Arkansas City and Pittsburg sites. ONEOK and WRI
2 agreed to share responsibility for the remaining sites, including Atchinson, Manhattan,
3 Junction City, Salina, and Concordia. In addition, the parties agreed that they would share
4 responsibility for sites that had not yet been identified as having environmental issues.
5 However, WRI's obligations for shared responsibility extended only to sites identified within
6 the first fifteen years following the merger.

7
8 **Q. How was responsibility for shared sites to be allocated between WRI and ONEOK**
9 **according to the Environmental Indemnity Agreement?**

10 A. The Environmental Indemnity Agreement contained a hierarchy for recovery of costs
11 associated with remediation of the MGP sites. As discussed in the response to KCC-51, the
12 costs associated with the shared plants were to be recovered in the following order: 1)
13 insurance recoveries, 2) recovery from other potentially responsible parties ("PRPs"), 3)
14 recovery from ratepayers through utility rates, 4) recovery from ONEOK of the next \$2.5
15 million of costs, and 5) recovery of additional costs split 50% / 50% between ONEOK and
16 WRI. However, WRI's responsibility was limited to \$3.75 million under this provision.
17 The agreements permit the Company to collect amounts from WRI prior to receiving
18 insurance proceeds, but KGS must reimburse WRI in the event of insurance recoveries.

19
20 **Q. What level of costs has the Company incurred to date?**

21 A. Through December 31, 2016, the Company incurred costs of approximately \$10.75 million.

1 To date, the Company has not recovered any remediation costs from WRI pursuant to the
2 Environmental Indemnity Agreement.

3
4 **Q. How have remediation costs been handled by KGS since the acquisition?**

5 A. When the properties were acquired by KGS in 1997, the Company established an
6 environmental reserve of \$12.6 million relating to future environmental liability associated
7 with the MGP sites. This was part of an overall reserve of \$19.1 million that was established
8 related to potential liabilities resulting from the acquisition. Since the acquisition,
9 expenditures associated with remediation activities have been charged to the reserve. In the
10 3rd and 4th quarters 2016, KGS recorded reserve additions of \$4.5 million, bringing the total
11 reserve balance to \$5.9 million. It is interesting to note that although the Company has
12 booked total reserves relating to remediation of \$17.1 million (\$12.6 million + \$4.5 million)
13 and has incurred expenditures net of insurance proceeds of \$9.49 million, the current reserve
14 balance is only \$5.9 million and not the \$7.61 million that one would expect (\$17.1 million -
15 \$9.49 million). This is because the initial environmental reserve was part of the larger \$19.1
16 million accrual. As stated in the response to KCC-5, some of the items included in that initial
17 reserve were resolved for less than the accrued amount and some incurred costs were higher
18 than projected. Therefore, the entire \$12.6 million initial environmental reserve was not
19 exclusively available for MGP activities.

1 **Q. Does the Company include internal labor costs in its MGP remediation expenditures?**

2 A. Yes, it does. Internal labor costs related to MGP remediation activities are credited against
3 the reserve. The current reserve of \$5.9 million includes approximately \$300,000 for internal
4 labor costs.

5
6 **Q. Does the Company have an estimate for future costs associated with remediation
7 activities?**

8 A. KGS states that it is very difficult to estimate with any acceptable level of certainty what the
9 total remaining MGP site remediation costs will be. The Company estimates that future costs
10 associated with the Abilene site could range from \$4.0 million to \$7.0 million. Currently
11 estimated costs for the other sites are significantly less. However, KGS has emphasized that it
12 cannot accurately forecast the total liability resulting from environmental clean-up of these
13 MGP sites. The Company did provide a 36-month remediation plan for each of the twelve
14 MGP sites included in its Application. However, the 36-month plans that were provided by
15 KGS generally cover the period 2016-2018. Thus, these plans will be relatively stale by the
16 time that this case is litigated.

17

18 **C. Insurance Proceeds**

19 **Q. Has the Company obtained any insurance proceeds related to these MGP sites?**

20 A. To date, the Company has received insurance proceeds of only \$1.26 million. KGS has
21 generally been unwilling to enter into insurance settlements for several reasons. The

1 Company claims that litigation is likely to be necessary in order to obtain insurance proceeds
2 and the Company has been reluctant to pursue litigation because of the uncertainty regarding
3 the total costs that may be incurred to complete remediation of the sites. KGS also claims that
4 it originally believed that its initial liability reserve would be adequate to cover the costs of
5 environmental remediation.

6 As discussed in the testimony of Mr. Smith, many companies have been successful in
7 obtaining insurance proceeds for environmental remediation. This is because many of the
8 policies written up to the 1950s did not contain any exclusions. Nevertheless, the Company
9 recognizes that insurance companies are likely to raise various objections to environmental
10 claims.

11 The insurance proceeds received to date were primarily received from London market
12 companies that have entered into receivership or run-off, which is a form of bankruptcy, as
13 discussed on page 10 of Mr. Smith's testimony. Thus, KGS believes that if it had not entered
14 into the insurance agreements that have been executed, no proceeds would have been
15 recovered from these insurers. According to the response to KCC-45 there has been only one
16 small insurance settlement reached, other than amounts received from companies going into
17 bankruptcy.

18
19 **Q. Does the Company intend to apply insurance proceeds on a site-specific basis?**

20 **A.** No. According to the response to KCC-44, the claims will be made on a site-specific basis.
21 However, KGS indicated that it most likely will not be able to keep track of the recoveries by

1 site, because insurance companies will settle for one amount which may cover several years
2 and only certain sites.

3
4 **D. Analysis of the Company's Proposal**

5 **Q. What are the issues that the KCC is being asked to determine in this case?**

6 A. In this case, the Company is seeking KCC authorization for the ratemaking treatment
7 associated with costs incurred on or after January 1, 2017. In addition, the Company is
8 seeking to retain the first \$9.49 million in insurance proceeds in order to reimburse
9 shareholders for costs that have been incurred since the acquisition of the assets. I will
10 address each of these requests separately.

11
12 **Q. Does the Company claim that its proposal has benefits for ratepayers?**

13 A. Yes, it does. As discussed on pages 14-15 of Mr. Dittimore's testimony, the Company claims
14 that its proposal results in cost recovery that is known, measurable, and consistent, given the
15 ten-year amortization being requested. Second, the Company claims that customers benefit by
16 not having to pay 100% of the prospective costs. Third, the Company states that its sharing
17 proposal for insurance proceeds provides an incentive for the Company to maximize such
18 proceeds. Finally, the proposal provides for annual monitoring of the Company's remediation
19 activities.

1 **Q. Do you oppose the Company's request for an accounting order related to MGP costs**
2 **incurred after January 1, 2017?**

3 A. Yes, I do. I recommend that the KCC deny the Company's request to defer these costs and to
4 recover them from ratepayers in the future. Costs relating to remediation of MGP sites are
5 clearly not necessary for the provision of prospective natural gas service. These costs relate to
6 service that was provided generations ago. The last of the MGP sites included in the
7 Application was closed in 1930, long before most of the Company's ratepayers were even
8 born. The costs that are at issue in this case are clearly not necessary for the provision of safe
9 and adequate service to current customers. Current ratepayers should not be responsible for
10 costs related to the provision of past service, service that in some cases was provided more
11 than a century ago. It is a basic tenet of utility regulation that costs charged to ratepayers
12 should match the costs incurred to serve those customers. Recovery of these MGP
13 remediation costs from current ratepayers violates this principle.

14
15 **Q. Does the Company's proposal result in cost recovery that is known, measurable, and**
16 **consistent as alleged by KGS?**

17 A. No, it does not. If the Company's proposal is approved, the costs charged to ratepayers will
18 not be known, measurable, or consistent. While each tranche of the deferral would be
19 recovered from ratepayers over a ten-year period, the actual amount to be recovered from
20 ratepayers is not known and will not be known until after the costs are incurred. Moreover,
21 the remediation costs reflected in utility rates can fluctuate significantly, depending on when

1 actual costs are incurred and on the frequency of rate case filings.

2
3 **Q. Do you believe that ratepayers will benefit by not having to pay 100% of the prospective**
4 **costs?**

5 A. No, because I don't believe that current ratepayers should be responsible for any of these
6 costs. The MGP sites in question were acquired by ONEOK from WRI in 1997. In that
7 acquisition, ONEOK agreed to pay WRI a premium of approximately \$64 million to acquire
8 the natural gas assets. ONEOK was well aware of the potential liability related to these MGP
9 sites when it entered into that transaction, as evidenced by the Environmental Indemnity
10 Agreement that was executed between the parties. I note that ONEOK did not enter into an
11 Environmental Indemnity Agreement with its ratepayers at that time. Yet, it is asking those
12 ratepayers to guarantee recovery of all future remediation costs, even though such costs are
13 not necessary to the provision of prospective natural gas service.

14
15 **Q. Does the Company's sharing proposal for insurance proceeds provide an incentive for**
16 **the Company to maximize such proceeds?**

17 A. No, it does not. In fact, if the KCC approves the Company's proposed ratemaking treatment,
18 KGS will have less of an incentive to maximize insurance proceeds. As discussed above, the
19 Environmental Indemnity Agreement laid out a hierarchy for responsibility of expenditures.
20 Pursuant to that agreement, the first source of remediation funds was to be insurance proceeds,
21 followed by other PRPs. Only after those two resources were exhausted was recovery from

1 ratepayers to be attempted. Nevertheless, KGS has not aggressively pursued insurance
2 proceeds and instead is seeking assurances that ratepayers will be the ultimate guarantor of
3 remediation cost recovery.

4
5 **Q. Did ONEOK undertake due diligence regarding the likelihood of insurance recoveries**
6 **when it purchased the WRI assets?**

7 A. It appears so. According to the testimony of Mr. Smith at page 3, ONEOK not only reviewed
8 the insurance available from the prior owners but also retained a legal firm and an
9 archeological consultant “to develop a complete understanding of all the potential insurance
10 policies covering the MGP sites.” After the acquisition, WRI and KGS jointly filed claims
11 against 10 insurers. It was subsequently decided that legal action would probably be required
12 in order to receive compensation under these policies. According to page 5 of Mr. Smith’s
13 testimony, “As a result, the Company decided to drop the pursuit of insurance settlements
14 until additional site investigation and work could be done to help the Company to better
15 understand the nature and extent of future site clean-up costs.” While KGS acknowledges that
16 it has not yet pursued its claims against insurers, arguing that it anticipates litigation will be
17 necessary and it is difficult to commence litigation without knowing the magnitude of the
18 costs, it is nevertheless asking the KCC to write shareholders a blank check by permitting the
19 deferral of costs incurred effective January 1, 2017. I note that the Company’s proposal does
20 not provide any protection or cap for the ratepayers, although KGS is seeking to limit
21 shareholders’ exposure to such costs.

1 **Q. Is it reasonable to authorize recovery from ratepayers of costs that are unknown at this**
2 **time?**

3 A. No. There is a great deal of uncertainty regarding the level of costs that may be required in
4 the future to remediate these sites. At the present time, the estimate for the Abilene site
5 ranges from \$4.0 to \$7.0 million, a fairly wide range. Moreover, while the estimates for the
6 other sites are significantly less, there is a fair amount of uncertainty related to these other
7 sites as well. According to the response to KCC-28, final site-specific documents have not
8 been filed for any of these sites. The Topeka and Emporia sites have been resolved “with
9 restrictions”, but even these sites present uncertainty with regard to the need for future
10 remediation activities. The 36-month tentative remediation plan provided in Exhibit JEH-7 to
11 Mr. Haught’s testimony only covers a 36-month period through June 30, 2018. No further
12 projections of future remediation costs have been provided. Thus, we do not know at this
13 time what the potential future liability of the Company will be. According to the testimony of
14 Mr. Haught at page 11, “[i]t is extremely difficult to estimate with an acceptable amount of
15 certainty what the remaining MGP costs will be at the 12 sites. This is because it is still
16 unknown how much Environmental Work needs to be performed and how regulations
17 governing these sites will change in the future. While a total cost cannot be reasonably
18 estimated, Kansas Gas Service has estimated the costs associated with the Environmental
19 Work at the 12 MGP sites that are known and measurable.” The “known” costs referenced by
20 Mr. Haught are those that have been reflected in the environmental reserve. However, the
21 Company is asking the KCC to establish a regulatory asset for all future remediation costs at

1 these twelve sites, even though the size of this future liability is unknown.

2 ONEOK was well aware of these MGP sites when it acquired the properties from
3 WRI. It is unreasonable to ask ratepayers to assume responsibility for this unknown liability
4 when it was ONEOK's shareholders, and not ratepayers, that pursued the acquisition of these
5 properties from WRI. It is clear from the Environmental Indemnity Agreement that the
6 potential for an environmental liability was known at the time of the acquisition. However,
7 today, 20 years later, the Company is seeking to transfer the risk of recovery from
8 shareholders to ratepayers, even though the magnitude of this liability cannot be quantified.

9
10 **Q. Why do you believe that it is reasonable to require shareholders, rather than ratepayers,
11 to fund these remediation costs?**

12 A. The risk of environmental liability was known when ONEOK acquired these properties from
13 WRI. ONEOK was willing to take on that risk, and compensated WRI very well for the
14 natural gas assets that were acquired. It is inappropriate to now transfer that risk to the
15 Company's ratepayers. Shareholders had no right to expect that they would recover these
16 remediation costs from ratepayers. In fact, these costs were initially paid for by the
17 Company's shareholders. The fact that the costs are now projected to be greater than those
18 originally estimated is not reason enough to now transfer this risk to ratepayers. In utility rate
19 proceedings, shareholders are routinely awarded a return on equity that reflects a premium
20 over the risk-free rate. In return, it is reasonable to require shareholders to actually assume the
21 risk that certain costs will not be recovered. By definition, the assumption of risk means that

1 shareholders may not recover all of their costs all the time.

2
3 **Q. Does allowing the Company to recover these costs from ratepayers provide the proper**
4 **incentive for KGS to minimize these costs?**

5 A. No, it does not. The Company's proposal basically provides a blank check to KGS and its
6 shareholders. While the Company's proposal does not include carrying costs, it still includes
7 recovery of all remediation costs, including associated administrative costs relating to the
8 KDHE and insurance litigation, from ratepayers. Therefore, permitting the Company to
9 record a regulatory asset does not provide the appropriate incentive to KGS. This is especially
10 true since under the Company's proposal, the ratemaking treatment for these deferred costs
11 would be determined in this case, even before the full extent of the liability is known.

12
13 **Q. If the KCC accepts your recommendation, should the Company be permitted to retain**
14 **any insurance proceeds related to the MGP sites?**

15 A. Yes, it should. Since I am recommending that the Company's shareholders, and not its
16 ratepayers, be responsible for all prospective remediation costs, then the shareholders should
17 also receive the benefit of any future insurance recoveries.

18
19 **Q. If the KCC believes that some recovery from ratepayers is appropriate, do you support**
20 **the Company's proposal whereby the Company would receive recovery over ten years**
21 **without carrying costs?**

1 A. No, I do not, for several reasons. First, the Company states that its proposal results in a 60% /
2 40% sharing between shareholders and ratepayers. However, there is no rationale for a 60% /
3 40% sharing in this case. While a 60% / 40% split may have been adopted in the KPS case,
4 the circumstances in that case were different than those in this case. Here, ONEOK made a
5 decision to acquire these properties knowing there was an environmental liability. Moreover,
6 ONEOK negotiated the terms of that liability with WRI. In addition, in the case of KPS, the
7 property that was the subject of the remediation was being used “for KPS’ warehouse, garage,
8 storeroom, operations facilities, company vehicle parking and storage.”⁴ In this case, many of
9 the sites that are the subject of the current Application are not owned by KGS and/or are not
10 currently being utilized to provide natural gas service. Finally, while a 60% / 40% split may
11 have been authorized by the KCC in the KPS case, it is unclear why the Commission found
12 that a 60% / 40% split was reasonable.

13
14 **Q. Does the Company’s proposal actually result in a 60% / 40% sharing of prospective**
15 **remediation costs?**

16 A. No, it does not. KGS states that the ratemaking treatment proposed by the Company, whereby
17 costs would be amortized over a 10-year period without rate base treatment, is identical to the
18 treatment that the KCC granted to KPS. KGS also states that this ratemaking treatment results
19 in an effective sharing of costs, with customers paying 60% of the costs and shareholders
20 paying 40% of the costs, due to the fact that no carrying charges were applied. However, the

4 Paragraph 2 of the Order in KCC Docket No. 185,507-U, June 14, 1993.

1 actual impact of foregoing carrying costs will depend on the Company's weighted cost of
2 capital at any given time. In a high interest rate environment, the loss of carrying costs will
3 have more of an impact than in a low interest rate environment. Therefore, the actual impact
4 of a ten-year amortization, without carrying charges, will depend on the costs of capital that
5 are authorized by the KCC during the period of time over which costs are being amortized.
6 Therefore, if the Company's proposal is adopted, the actual percentage of costs being charged
7 to ratepayers is likely to be different from the 60% claimed by KGS.

8
9 **Q. If the KCC believes that some sharing between ratepayers and shareholders is**
10 **appropriate, what would you recommend?**

11 A. The Company already has a contingent liability reserve established of approximately \$5.9
12 million. This amount has already been expensed on the Company's books and records.
13 Therefore, I recommend that the first \$5.9 million of actual costs be charged against this
14 reserve prior to beginning recovery of any amounts from Kansas ratepayers.

15 In addition, I recommend that any deferral be limited to 50% of the remediation costs
16 incurred by KGS. Limiting the deferral to 50% will ensure that ratepayers do not pay more
17 than the Company's shareholders and recognizes the responsibility that the Company should
18 bear for ONEOK's decision to acquire these natural gas assets, knowing the potential
19 environmental liability.

1 **Q. Should the Company be permitted to defer labor costs associated with remediation**
2 **activities?**

3 A. If the KCC permits the Company to defer some portion of remediation costs, then I
4 recommend that it limit deferral of internal labor costs to employees that are dedicated full-
5 time to remediation activities. Labor costs for employees who split their time between
6 remediation activities and other functions should be recovered in base rates, in order to avoid
7 the possibility of the Company collecting these labor costs twice, one in base rates and once
8 through a deferral. Even if labor costs are properly allocated between remediation activities
9 and base rates as part of a base rate case proceeding, changes in work activity levels would
10 likely result in a mismatch between the costs being recovered in base rates and the actual level
11 of non-remediation activities being performed. This could result in either an over- or under-
12 recovery of these labor costs in base rates. While my recommendation to limit the deferral to
13 labor costs for employees that are 100% assigned to remediation activities could result in
14 some remediation costs being recovered in base rates, my recommendation will at least
15 eliminate any potential for double-recovery and is also easy to administer and review.

16
17 **Q. If the Commission permits the Company to defer 50% of the actual remediation costs,**
18 **should the KCC specify the manner in which any such costs would be recovered?**

19 A. No, it should not. If the KCC decides to permit the Company to defer any of the remediation
20 costs, it should not only limit the deferral to 50%, but it should also postpone any decision on
21 rate recovery until such time as the KCC and the other parties have had the opportunity to

1 examine the actual costs in a base rate case proceeding. Based on the magnitude of the
2 deferred costs and the nature of the costs incurred, the KCC can then evaluate the deferral and
3 determine the appropriate ratemaking treatment, if any.

4
5 **Q. Should the Company be permitted to retain the next \$9.49 million in insurance proceeds**
6 **so that shareholders will be fully reimbursed for amounts spent to date?**

7 A. The Company should only be permitted to retain the next \$9.49 million in insurance proceeds
8 if the KCC denies the Company's request to recover future remediation costs from ratepayers.
9 In that case, all insurance recoveries, and all remediation costs, should be allocated to
10 shareholders.

11 However, if the KCC determines that 50% of prospective costs should be deferred,
12 then the KCC should also allocate 50% of all prospective insurance recoveries to the deferral.
13 In either case, disposition of the next \$9.49 million of insurance proceeds should be tied to the
14 treatment afforded prospective remediation costs. In no case should these proceeds be retained
15 by shareholders as compensation for prior costs incurred by KGS. Shareholders are seeking
16 recovery in future rates for past costs that in some case were incurred 20 years ago. The
17 Company's proposal to retain the first \$9.49 million of insurance proceeds to compensate
18 shareholders for past costs constitutes retroactive ratemaking and therefore should be rejected
19 by the KCC.

1 **Q. If the request for deferral is denied, how does KGS plan to treat remediation costs in the**
2 **future?**

3 A. As discussed on page 9 of Mr. Dittimore’s testimony, if the request for a deferral is denied,
4 then the Company intends to seek recovery of future remediation costs in future rate
5 proceedings. Mr. Dittimore contends that because of the potential variation in remediation
6 costs from year to year, there would be uncertainty as to whether the test period costs used to
7 set rates were representative of ongoing operations.

8
9 **Q. Should that be a concern?**

10 A. Not necessarily. While I would prefer that the KCC determine in this case that the
11 remediation costs at issue should be paid for by shareholders, and not by regulated utility
12 ratepayers, the KCC could deny the Company’s request for a deferral and still postpone any
13 decision on recovery of prospective remediation costs until a base rate case. In future rate
14 cases, the Company would then have the ability to seek recovery for costs incurred in the test
15 year, including remediation costs. Moreover, other parties in that proceeding, such as CURB,
16 would have the ability to argue against recovery of any such costs from ratepayers. Based on
17 the evidence presented, the KCC could find that it would be appropriate to amortize such
18 costs over a multi-year period. Alternatively, the KCC could find that the test year costs were
19 not necessary to provide safe and adequate natural gas service prospectively and should be
20 totally disallowed. Thus, the KCC retains significant flexibility through the base rate case
21 process to address future claims for recovery.

1 **Q. Please summarize your recommendations.**

2 A. I recommend that the KCC deny the Company's request to defer remediation costs associated
3 with the twelve MGP sites that are the subject of the Application. In addition, I recommend
4 that the KCC find that these costs should be recovered from the Company's shareholders, not
5 its ratepayers. In the event that the KCC finds that some recovery from ratepayers is
6 appropriate, then it should limit any deferral to 50% of remediation costs. The ratemaking
7 treatment for any deferral should be examined in a base rate case. Internal labor costs should
8 not be included in any deferral unless such costs relate to employees that are wholly dedicated
9 to remediation activities.

10 Future insurance proceeds should be treated for ratemaking purposes in a manner
11 similar to the underlying prospective remediation costs. In no event should shareholders be
12 permitted to retroactively recover prior remediation costs through retention of future insurance
13 proceeds. If the KCC does not want to make a final determination on the recoverability of
14 remediation costs in this case, it can deny the request for a deferral and still review potential
15 recovery of prospective remediation costs in a future base rate case.

16

17 **Q. Does this conclude your testimony?**

18 A. Yes, it does.

VERIFICATION


STATE OF FLORIDA)
COUNTY OF BROWARD) ss:

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing Direct Testimony, and that the statements made therein are true to the best of her knowledge, information and belief

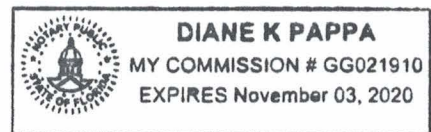


Andrea C. Crane

Subscribed and sworn before me this 6th day of September, 2017.

Notary Public 

My Commission Expires: NOVEMBER 3, 2020



<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Kansas Gas Service	G	Kansas	17-KGSG-455-ACT	9/17	MGP Remediation Costs	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER17030308	8/17	Base Rate Case	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	17-WSEE-147-RTS	5/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	17-KCPE-201-RTS	4/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	16-KCPE-593-ACQ	12/16	Proposed Merger	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	16-KGSG-491-RTS	9/16	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00312-UT	7/16	Automated Metering Infrastructure	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	16-KCPE-160-MIS	6/16	Clean Charge Network	Citizens' Utility Ratepayer Board
Kentucky American Water Company	W	Kentucky	2016-00418	5/16	Revenue Requirements	Attorney General/LFUCG
Black Hills/Kansas Gas Utility Company	G	Kansas	16-BHCG-171-TAR	3/16	Long-Term Hedge Contract	Citizens' Utility Ratepayer Board
General Investigation Regarding Accelerated Pipeline Replacement	G	Kansas	15-GIMG-343-GIG	1/16	Cost Recovery Issues	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00261-UT	1/16	Revenue Requirements	Office of Attorney General
Atmos Energy Company	G	Kansas	16-ATMG-079-RTS	12/15	Revenue Requirements	Citizens' Utility Ratepayer Board
El Paso Electric Company	E	New Mexico	15-00109-UT	12/15	Sale of Generating Facility	Office of Attorney General
El Paso Electric Company	E	New Mexico	15-00127-UT	9/15	Revenue Requirements	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER14030250	9/15	Storm Hardening Surcharge	Division of Rate Counsel
El Paso Electric Company	E	New Mexico	15-00099-UT	8/15	Certificate of Public Convenience - Ft. Bliss	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	15-00083-UT	7/15	Approval of Purchased Power Agreements	Office of Attorney General
Westar Energy, Inc.	E	Kansas	15-WSEE-115-RTS	7/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	15-KCPE-116-RTS	5/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR14101099-1120	4/15	Cable Rates (Form 1240)	Division of Rate Counsel
Liberty Utilities (Pine Buff Water)	W	Arkansas	14-020-U	1/15	Revenue Requirements	Office of Attorney General
Public Service Electric and Gas Co.	E/G	New Jersey	EO14080897	11/14	Energy Efficiency Program Extension II	Division of Rate Counsel
Exelon and Pepco Holdings, Inc.	E	New Jersey	EM14060581	11/14	Synergy Savings, Customer Investment Fund, CTA	Division of Rate Counsel
Black Hills/Kansas Gas Utility Company	G	Kansas	14-BHCG-502-RTS	9/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of	E	New Mexico	14-00158-UT	9/14	Renewable Energy Rider	Office of Attorney General

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
New Mexico						
Public Service Company of New Mexico	E	New Mexico	13-00390-UT	8/14	Abandonment of San Juan Units 2 and 3	Office of Attorney General
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General
Oneok, Inc. and Kansas Gas Service	G	Kansas	14-KGSG-100-MIS	12/13	Plan of Reorganization	Citizens' Utility Ratepayer Board
Public Service Electric & Gas Company	E/G	New Jersey	EO13020155 GO13020156	10/13	Energy Strong Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	12-00350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4 All - Extension Program	Division of Rate Counsel
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium, Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

APPENDIX B

Referenced Data Requests:

KCC-5

KCC-28

KCC-44

KCC-45

KCC-51

Kansas Corporation Commission

Docket Number 17-KGSG-455-ACT

Information Request

Data Request: 17-455 KCC-005: Additional Liability
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 4/28/17
Date Information Needed: 5/10/17
Requested By: Bill Baldry

Page 1 of 2

Please provide the following:

On pages 5 and 6 of Mr. Dittmore's testimony, he mentions that KGS recorded an additional liability of \$4,500,000 to bring the environmental liability account up to a balance of \$5,900,000. Before the additional liability of \$4,500,000 was recorded in 2016, it appears the environmental liability account had a balance of \$1,400,000 (\$5,900,000 less \$4,500,000).

ONEOK established an environmental reserve of \$12,600,000 in 1997. (Dittmore testimony, page 5) Between 1997 and 2016, ONEOK incurred manufacturing gas plant costs of \$10,750,000. (Dittmore testimony, page 6)

Reserve	\$12,600,000
Less: Money expended	(\$10,750,000)

Remaining Liability Balance	\$1,850,000

a. Please reconcile the liability account balances of \$1,850,000 and \$1,400,000 prior to the \$4,500,000 addition in 2016.

Response: /

When the liability account was originally established, it was all part of the the legal reserve booked to account 2530 and the following liabilities were set up:

	<u>Amount</u>	
Manufactured Gas Plants	\$ 8,300,000 MGP	} = \$12,603,000
RCRA Remediation & Post Closure Site	3,500,000 ⁽¹⁾	
Manufactured Gas Site Insurance Litigation	800,000 MGP	
Underground Storage Tanks	3,000 ⁽²⁾	
Legal Reserves	5,611,021	
Correction for Billing Errors due to incorrect Customer Tariff	300,000	
Workers Compensation Claims	446,807	
City of Kansas City, KS Franchise Fee audit	100,000	
Total	<u>\$19,060,828</u>	

- (1) Relates to Resource Conservation and Recovery Act (RCRA) for Minneola Compressor Station, Abilene Compressor Station, Calista Compressor Station, Minneola Gas Processing Plan, Yaggy Storage, Derby, KS Storage Shed, and Obee Road
- (2) Related to underground storage tanks at the Wichita gas service center and the Mission service center

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittmore

Date: May 10, 2017

Kansas Corporation Commission

Docket Number 17-KGSG-455-ACT

Information Request

Data Request: 17-455 KCC-005: Additional Liability
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 4/28/17
Date Information Needed: 5/10/17
Requested By: Bill Baldry

Page 2 of 2

Note: The **Resource Conservation and Recovery Act (RCRA)**, enacted in 1976, is the principal federal law in the United States governing the disposal of solid waste and hazardous waste. Congress enacted **RCRA** to address the increasing problems the nation faced from its growing volume of municipal and industrial waste. **RCRA** amended the Solid Waste Disposal Act of 1965.

This amount was booked with other legal liabilities which resulted in a total liability of \$19,060,829 being established. Over time some of the items were resolved for less than the accrued amount and some incurred cost higher than the amount reserved. It is important to note that while no expense was incurred, the company did incur cash expenditures to satisfy these obligations. The actual amount of expense related to MGPs was \$10.75 million based on a review of the actual expenses. Additionally, insurance recoveries of \$1.26 million were booked to this account and the resulting balance at 12/31/2016 was a liability of \$1.4 million prior to the \$4.5 million being booked.

Prepared by: Mark W. Smith

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Witten

Date: May 10, 2017

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-028: Final Site Specific Documents
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 6/1/2017
Date Information Needed: 6/12/17
Requested By: Leo Haynos

Page 1 of 1

Please provide the following:

- | |
|--|
| A. Has KGS submitted final site specific documents (page 9 of consent order) for any of the 12 identified sites?
B. If yes, for which site was it submitted, when was it submitted, and when did KDHE approve it? |
|--|

A. No.

B. Not applicable

Prepared by: James Haught

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Witten

Date: June 12, 2017

Kansas Corporation Commission

Docket Number 17-KGSG-455-ACT

Information Request

Data Request: 17-455 KCC-044: Insurance Claim Submittal Process

Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.

Request Date: 6/20/17

Date Information Needed: 6/29/17

Requested By: Justin Grady

Page 3 of 3

- Modify existing cost allocation models to reflect the results of the case law review.
- Choose appropriate insurance companies to make claims against.
- File claims.
- Negotiate potential settlements.
- File lawsuits if settlements cannot be reached.

The claims will be made for: 1) actual costs, 2) all future projected costs, and 3) all future projected third party damages or lawsuits. Each insurance company will be responsible for their pro-rata share based on the length of time the coverage was in effect.

The claims will be made on a site by site basis, because some insurance carriers only insured certain sites. It most likely will not be possible to keep track of the recoveries by site, because insurance companies will settle for one amount which may cover several years and only certain sites. In other cases, some insurance companies covered all the sites and will settle for a number that is related to the overall future risk and will provide settlement information by site .

Prepared by: Mark W. Smith

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Wain O Witten

Date: June 29, 2017

Kansas Corporation Commission

Docket Number 17-KGSG-455-ACT

Information Request

Data Request: 17-455 KCC-045: Detail Behind Insurance Recoveries

Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.

Request Date: 6/20/17

Date Information Needed: 6/29/17

Requested By: Justin Grady

Page 1 of 1

Please provide the following:

Mr. Smith's testimony generally discusses One Gas' past actions and strategy for pursuing insurance settlements. On Page 11, beginning at line 5, Mr. Smith states that the insurance companies, who hold these policies, are generally unwilling to enter into partial settlements but instead demand full release from any future liability under the policy. For each of the insurance settlements/recoveries that One Gas has received to date, please provide the name of the insurance company, the amount of the settlement, the site or sites that were covered under the policy, the year of recovery, and whether the settlement/recovery included a release of all future liability for ONE Gas MGP costs with that insurance company.

KGS Response: As disclosed in the response to data request number 40, most of the insurance recoveries received to date are believed to have come from those companies who have become insolvent and the Company receiving partial reimbursement through the associated bankruptcy proceedings. As also identified within this response (data request number 40) there has been one actual settlement. Please see the response to data request number 40 for the information requested.

Prepared by: Mark W. Smith

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: _____

Wai D. Witten

Date: _____

June 29, 2017

Kansas Corporation Commission

Docket Number 17-KGSG-455-ACT

Information Request

Data Request: 17-455 KCC-051: RE: DR No. 1 Environmental Indemnity Agreement - Shared Liability

Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.

Request Date: 6/27/17

Date Information Needed: 7/07/17

Requested By: Bill Baldry

Page 1 of 1

Please provide the following:

On page 11 of David Dittimore's testimony, he states that the Company has incurred \$10,750,000 in manufactured gas plant costs.

1. a. Section 3(b) of the environmental indemnity agreement states that Westar will share in remediation costs for up to 15 years. Sections 3(d)(iv) and (v) discuss the sharing of remediation costs between Westar and ONEOK. Of the \$10,750,000 in MGP costs that have been incurred and paid from 1997 - 2016, please provide the dollar amount of claims incurred and paid from 1997 - 2002.

b. Of the remediation costs incurred and paid during the period 1997 - 2002, please provide the dollar amount of claims Westar paid.

c. If remediation costs were incurred and paid during 1997 - 2002 but Westar paid none of the costs, please explain why Westar paid none of the costs.

d. If Westar did pay some remediation costs, did KGS subtract Westar's payments from the \$10,750,000 of manufactured gas plant costs that have been incurred?

KGS Response:

a. Of the \$10,750,000, \$2,279,431.60 was incurred from 1997 to 2002.

b. None of this amount was paid by Westar.

c. See the response to 17-455 KCC-038 addressing the indemnity agreement. Under the agreement, the cost for the shared plants were to be covered as follows:

- First, insurance recoveries were to be used to off-set costs incurred see Section 3(d)(i).
- Second, other responsible parties were to be pursued, see Section 3(d)(ii).
- Third, recovery through rates was to be requested, see Section 3(d)(iii).
- Fourth, ONE Gas (formerly ONEOK or WAI in the agreement) was responsible for the next \$2.5 million, see Section 3(d)(iv).
- Fifth, ONE Gas & Western Resources were to share in the next \$7.5 million (note: Western Resources liability was capped at \$3.75 million), see Section 3(d)(v).

Therefore, Western Resources has not been billed for any costs at this time.

d. N/A.

Prepared by: Mark Smith

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: _____

David Dittimore

Date: _____

July 7, 2017

CERTIFICATE OF SERVICE

17-KGSG-455-ACT

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 8th day of September, 2017, to the following:

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

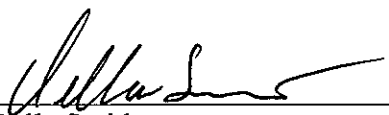
BRIAN G. FEDOTIN, DEPUTY GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
b.fedotin@kcc.ks.gov

JAKE FISHER, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
j.fisher@kcc.ks.gov

ROBERT VINCENT, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
r.vincent@kcc.ks.gov

JANET BUCHANAN, MANAGER OF RATES & ANALYSIS
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH ST
OVERLAND PARK, KS 66213-2713
janet.buchanan@onegas.com

JUDY JENKINS, MANAGING ATTORNEY
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH ST
OVERLAND PARK, KS 66213-2713
judy.jenkins@onegas.com



Della Smith
Administrative Specialist