

REBUTTAL TESTIMONY
OF
JAMES E. HAUGHT
KANSAS GAS SERVICE
DOCKET NO. 17-KGSG-455-ACT

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is James E. Haught.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?**

6 A. I am employed by ONE Gas, Inc. ("ONE Gas" or "Company"). My business address is 15
7 East Fifth Street, Tulsa, Oklahoma.

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9 **Q. WHAT IS YOUR POSITION WITH ONE GAS?**

10 A. I am Director-Environmental for ONE Gas.

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12 **Q. ARE YOU THE SAME JAMES HAUGHT THAT HAS FILED DIRECT**
13 **TESTIMONY IN THIS DOCKET?**

14 A. Yes.

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16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my testimony is to address concerns raised by the Kansas Corporation
18 Commission Staff ("Staff") and the Citizen's Utility Ratepayer Board ("CURB") in their

1 testimony and to clarify Kansas Gas Service’s (“KGS”) request in this filing as appropriate.
2 Specifically, my testimony addresses the following:

3 (1) The scope of the Company’s efforts to remediate environmental conditions at certain
4 manufactured gas plants in Kansas;

5 (2) Staff’s recommendation that MGP costs be considered on an individual site basis
6 instead of collectively, as identified in the governing Kansas Department of Health and
7 Environment (“KDHE”) Consent Order;

8 (3) Staff’s recommendation that KGS not be allowed to file an application for an
9 approval of an accounting order (“AAO”) unless costs at an individual site are expected to
10 exceed \$1 million; and

11 (4) The Company’s processes which serve to minimize costs.
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13 **II. SCOPE OF REMEDIATION PROJECT**

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15 **Q. IN HIS DIRECT TESTIMONY, MR. HAYNOS RAISED CONCERNS REGARDING**
16 **THE INABILITY OF THE COMPANY TO ADEQUATELY PROJECT THE**
17 **TOTAL COSTS OF THE PROJECT. DO YOU AGREE WITH HIS ANALYSIS?**

18 A. Mostly. I agree with Mr. Haynos’s characterization as it relates to the scope of KDHE’s
19 Consent Order (“Order”). The Order is designed to provide a vehicle for the KDHE to
20 continue its work to identify areas of environmental concerns that may negatively impact
21 life and the environment. I agree with Mr. Haynos that the Order obligates KGS to perform
22 investigative and remedial tasks as information becomes available and as the KDHE may
23 deem reasonable and necessary.

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Q. WHAT IS YOUR CONCERN REGARDING MR. HAYNOS' CHARACTERIZATION OF THE SCOPE OF THE PROJECT?

A. Mr. Haynos is correct that it is not possible at this time to reasonably define the scope of the Company's obligation of remediation over the long term and that future investment is dependent on the result of ongoing monitoring and investigation. However, the Company does have the ability to provide estimated costs associated with a three-year forecast based on information known at the time the forecast was developed. For example, \$5.9 million of the future costs which are a subject of this AAO request is based on:

- 1) Estimated costs to conduct the work contained in the three-year forecast as identified in Exhibit JEH-7 and attached to my Direct testimony; and
- 2) Future costs estimated to be incurred to address specific issues identified in the 3rd and 4th quarters of 2016 as a result of investigations conducted per the three-year work forecast.

Nevertheless, I agree with Mr. Haynos that the amounts provided in any forecast of MGP costs are subject to change as new information and data is obtained. It is extremely difficult to reasonably forecast the scope of work that will be required in the future and then reasonably estimate the associated expenses beyond a relatively short time frame. This difficulty in accurately forecasting future requirements and costs support the reasonableness of the Company's request for an accounting mechanism that would provide the ability to recover actual costs incurred rather than accounting estimates, that may be revised as new information is obtained.

1 **Q. DO YOU AGREE WITH MR. HAYNOS' RECOMMENDATION FOR AN ANNUAL**
2 **REPORTING REQUIREMENT?**

3 A. Yes. In the Application, the Company recommended that the Kansas Corporation
4 Commission ("KCC" or "Commission") consider approving an annual reporting
5 requirement as further detailed in Mr. Dittmore's Direct Testimony. Mr. Dittmore
6 recommends KGS:

- 7 (1) Submit all reports provided to KDHE during the reporting year;
8 (2) Provide a summary of MGP costs incurred in the preceding year;
9 (3) Submit a description of the scheduled MGP work to be conducted in the subsequent
10 year as well as a cost estimate for such work; and
11 (4) Report the amount of any insurance proceeds received, if any, associated with the
12 Company's MGP remediation efforts in the past year. (*See*, Direct Testimony of David
13 Dittmore, at page 13, beginning at line 17).

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15 **Q. DO YOU AGREE WITH MR. HAYNOS' RECOMMENDATION THAT STAFF**
16 **REVIEW PROJECTS TO ENSURE KGS HAS SELECTED THE LEAST COST**
17 **MEANS TO ACCOMPLISH THE CLEANUP PROJECT?**

18 A. Partially. I agree with Mr. Haynos that the Commission has the obligation to ensure all
19 costs incurred by the public utility are just and reasonable. I believe that obligation can be
20 met by review of the materials to be submitted in the identified annual report. There are
21 two areas stated and implied in Mr. Haynos' testimony that do give me concern. First, the
22 recommendation that "Staff review the project to ensure KGS has selected the least cost
23 means to accomplish the cleanup project" implies that the Commission wants to be in the

1 position to either be part of and/or have approval authority over all phases of work before it
2 can be implemented or be able to after the fact disallow costs that KGS was required to incur
3 by another state agency. The KDHE has the statutory obligation and regulatory authority
4 to protect human health and the environment in Kansas. The cleanup of the KGS MGP
5 sites falls under the jurisdiction of KDHE and is implemented according to the Consent
6 Order which requires compliance with numerous state and federal regulations. I do not
7 believe it is appropriate for the Commission to impose an additional layer of regulation over
8 the same activities. Second, I am concerned that “least cost” was introduced in addition to
9 “just and reasonable” as the standard for costs being allowed. The work to bring these sites
10 to a point which KDHE determines is protective of human health and the environment is not
11 only very highly regulated and structured, it consists of many points where professional
12 judgement and evaluation of local conditions are all required to make a determination of the
13 “best” course of action. Accordingly, while cost is always a consideration when selecting
14 the best option, the lowest cost option may not always be the best option. Moreover, as
15 discussed below, under KGS’ proposal, the Company will be responsible for 40% of the
16 costs because of the amortization period used to recover the MGP costs. This provides KGS
17 an incentive to make sure all cost spent are reasonable.

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19 **III. STAFF’S RECOMMENDATION FOR A SEPARATE AAO FOR EACH MGP SITE**
20 **WHERE COSTS EXCEED \$1 MILLION**
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22 **Q. FROM THE STANDPOINT OF BEING ABLE TO TRACK MGP COSTS PER SITE**
23 **IS THERE ANY REASON TO HAVE A SEPARATE AAO FOR EACH MGP SITE**
24 **AS PROPOSED BY STAFF?**

1 A. No. The annual reports filed with the Commission will track MPG costs by site.
2 Therefore, it is not necessary to have a separate AAO for each MGP site as proposed by
3 Staff.

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5 **IV. THE COMPANY'S EFFORTS TO CONTROL COSTS**

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7 **Q. STAFF HAS ARGUED THAT THE GRANTING OF AN AAO WOULD REMOVE**
8 **THE COMPANY'S INCENTIVE TO CONTROL COSTS. PLEASE EXPLAIN**
9 **HOW THE COMPANY'S PROJECT COST REVIEW PROCESS WOULD**
10 **CHANGE IF THE COMMISSION APPROVES THE APPLICATION AS**
11 **REQUESTED.**

12 A. Mr. Haynos indicated it is reasonable to assume KGS has provided sufficient scrutiny of
13 charges for work done to date. The Company's process for reviewing project costs would
14 not change if the Commission approves the application as requested. KGS will continue to
15 work closely with KDHE and the Company's consultants in evaluating the most efficient
16 means of achieving the goals for each project. Under KGS's proposal, the Company will
17 be responsible for 40% of the costs because of the amortization period used to recover the
18 MGP costs. This provides KGS an incentive to make sure all cost spent are reasonable.
19 In addition, the Company's proposal provides the Commission the opportunity to review the
20 reasonableness of costs incurred that are proposed to be recovered.

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1 **VII. CONCLUSION**

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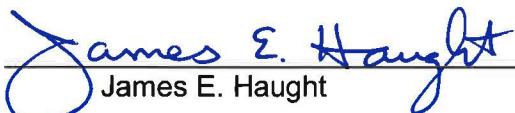
3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, it does.

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

James E. Haught, being duly sworn upon his oath, deposes and states that he is Director, Environmental Compliance for ONE Gas, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.



James E. Haught

Subscribed and sworn to before me this 25th day of September 2017.



NOTARY PUBLIC

My appointment Expires:
3/8/2021

