

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

TESTIMONY IN SUPPORT OF SETTLEMENT AGREEMENT

ANDREA C. CRANE

ON BEHALF OF

KANSAS CITIZENS' UTILITY RATEPAYER BOARD

October 12, 2017

I. INTRODUCTION

Q. Please state your name and business address.

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

Q. Did you previously file testimony in this proceeding?

A. Yes, on September 8, 2017, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer Board ("CURB"). In addition, on September 18, 2017, I filed Cross-Answering Testimony in response to testimony filed by the Kansas Corporation Commission Staff ("Staff").

Q. Briefly summarize your Direct and Cross-Answering Testimonies.

A. In my Direct Testimony, I recommended that the Kansas Corporation Commission ("KCC" or "Commission") reject the request by Kansas Gas Service ("KGS") to defer costs incurred after January 1, 2017 relating to the investigation, testing, monitoring, and environmental remediation of twelve Manufactured Gas Plant ("MGP") sites used in the past to manufacture gas. Instead, I recommended that these costs be paid by the Company's shareholders. I also recommended that if the KCC determined that some portion of remediation costs should be recovered from ratepayers, then any deferral should be limited to 50% of actual remediation costs and should exclude internal labor costs. I also recommended that the allocation of

1 insurance proceeds generally follow the allocation of remediation costs. Finally, I
2 recommended that if the KCC authorized the Company to defer certain costs, the ratemaking
3 treatment of any such deferral should be addressed in a future rate case, after the actual level
4 and nature of the expenditures were known and could be reviewed by the parties.

5 In my Cross-Answering Testimony, I opposed Staff's proposal to permit recovery of
6 60% of prudently-incurred remediation costs from ratepayers, and again recommended that
7 any recovery from ratepayers be limited to no more than 50% of such costs. In addition,
8 given the uncertainty with regard to the magnitude of future remediation costs, I opposed
9 Staff's recommendation that a specific ratemaking treatment be approved in this case.
10 Instead, I continued to recommend that the ratemaking treatment for any deferral be
11 determined in the future, once the nature and magnitude of such costs were known.

12
13 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement**
14 **discussions?**

15 **A.** Yes, the parties to this case have engaged in subsequent settlement discussions. As a result,
16 the parties have entered into a Unanimous Settlement Agreement ("Settlement Agreement")
17 that resolves all the issues in this case.

18
19 **II. SUMMARY OF SETTLEMENT AGREEMENT**

20 **Q. Can you please summarize the terms of the Settlement Agreement?**

21 **A.** The Settlement Agreement authorizes KGS to defer actual and prudent remediation costs

1 incurred after January 1, 2017. In addition, the Settlement Agreement provides that all
2 insurance proceeds related to those costs will be applied to reduce the deferral and that
3 internal labor costs will not be included in the deferral.

4 The Settlement Agreement provides that deferred costs will initially be amortized
5 over a fifteen-year period. In the first rate case following the rate case where recovery of
6 these remediation costs is sought, all parties are free to argue for a different amortization
7 period. However, if KGS proposes a different amortization period in that second rate case, it
8 has agreed that it will not seek an amortization period that would result in the allocation of
9 more than 60% of MGP costs to ratepayers. In any event, unamortized costs will not be
10 included in rate base in future rate cases nor will the deferral accrue any carrying costs.

11 The Settlement Agreement caps net deferred costs (MGP costs less insurance
12 proceeds) at \$15 million. KGS can request authorization to increase the cap if net costs
13 exceed \$15 million. At that time, the other parties can challenge a request to increase the cap
14 on any grounds, and the other parties reserve their right to argue that any additional costs
15 should be paid for entirely by the Company's shareholders.

16 The Settlement Agreement also contains annual reporting requirements. The
17 Company is also required to notify Staff and CURB if it becomes aware of any additional
18 remediation projects that are reasonably expected to exceed \$1 million.

19
20 **III. SUPPORT FOR SETTLEMENT AGREEMENT**

21 **Q. Are you familiar with the standards used by the KCC to evaluate a settlement that is**

1 **proposed to the Commission?**

2 A. Yes, I am. The KCC has adopted five guidelines for use in evaluating settlement agreements.

3 These include: (1) Has each party had an opportunity to be heard on its reasons for opposing
4 the settlement? (2) Is the agreement supported by substantial evidence in the record as a
5 whole? (3) Does the agreement conform to applicable law? (4) Will the agreement result in
6 just and reasonable rates? (5) Are the results of the agreement in the public interest, including
7 the interests of customers represented by any party not consenting to the agreement?

8 I understand that CURB counsel will address item 3, i.e., does the Settlement
9 Agreement conform to applicable law, in opening statements at the upcoming hearing. Since
10 I am not an attorney, it is more appropriate for CURB counsel to address this issue than for
11 me to address it. However, I will discuss the remaining four guidelines in this testimony.

12
13 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**
14 **Settlement Agreement?**

15 A. Yes, they have. I participated personally in settlement negotiations in this case and each
16 party had a full and complete opportunity to be heard. The parties discussed issues, resolved
17 certain discrepancies, and negotiated aggressively. The Settlement Agreement is a
18 unanimous agreement and therefore no party opposes the agreement.

19
20 **Q. Is the Settlement Agreement supported by substantial evidence in the record as a**
21 **whole?**

1 A. Yes, it is. As discussed in my Direct Testimony, CURB initially opposed recovery of any
2 remediation costs from ratepayers. To the extent that the KCC determined that some
3 recovery from ratepayers was appropriate, then CURB recommended that any such recovery
4 be limited to 50%. Staff recommended a 60% / 40% sharing between ratepayers and
5 shareholders, with a variable amortization period to effectuate such sharing. The Company
6 requested a ten-year amortization period, which it claimed would result in a 60% / 40%
7 sharing.

8 The Settlement Agreement reflects a compromise among these positions. The
9 fifteen-year period reflected in the agreement is longer than the period proposed by KGS,
10 which will result in a greater shareholder contribution than that proposed by KGS. Under
11 the terms of the Settlement Agreement, the exact shareholder / ratepayer split will vary,
12 depending on the Company's cost of capital at any given time. Nevertheless, the adoption of
13 a stated amortization period of fifteen-years provides the opportunity for significant
14 shareholder contributions. It also provides simplicity to the ratemaking process.

15 The Settlement Agreement also provides that ratepayers will benefit from all related
16 insurance proceeds, as recommended by Staff and CURB. The Company had requested that
17 shareholders be permitted to retain the first \$9.49 million of insurance proceeds to
18 compensate them for past costs. As discussed in the testimonies of Staff and CURB,
19 permitting shareholders to retain these insurance proceeds would be contrary to the public
20 interest. Pursuant to the Settlement Agreement, the insurance proceeds will be used to offset
21 the MGP costs, prior to the net costs being amortized.

1 Staff and CURB also expressed concerns in their testimonies about the uncertainty of
2 future remediation costs. The Settlement Agreement contains a cap of \$15 million of net
3 costs, which mitigates our concern regarding the potential magnitude of such costs.

4 Finally, while CURB would prefer that shareholders bear all remediation costs, we
5 recognize that both the KCC and other regulatory commissions have, in some cases,
6 permitted at least a portion of remediation costs to be recovered from ratepayers, as discussed
7 in testimony filed by various parties in this case. Based on all these factors, I believe that the
8 Settlement Agreement is supported by substantial evidence in the record.

9
10 **Q. How does the Settlement Agreement compare with the ratepayer / shareholder**
11 **allocation initially requested by KGS?**

12 **A.** As noted above, KGS requested that 60% of remediation costs be recovered from ratepayers
13 and that shareholders bear the remaining 40% of such costs. The Company proposed to
14 effectuate this allocation by allocating costs over a ten-year amortization period without
15 carrying charges. While the Settlement Agreement does not contain an explicit allocation
16 between ratepayers and shareholders, the amortization period of fifteen-years adopted for the
17 initial tranche of remediation costs is 50% longer than the amortization period proposed by
18 KGS. The exact allocation will depend on the Company's cost of capital at any given time.
19 However, it is reasonable to assume that the contribution from shareholders pursuant to the
20 Settlement Agreement would be significantly greater than that which was proposed by KGS.
21 I have not attempted to precisely quantify the sharing that results from the longer fifteen-year

1 amortization period. Nevertheless, for the reasons expressed in my Direct Testimony, as a
2 matter of public policy, I do not believe that an explicit allocation to ratepayers of more than
3 50% of remediation costs can be justified. While KGS relied upon a 1993 Order in a Kansas
4 Public Service Company ("KPS") case to justify its requested 60% allocation to ratepayers,
5 there has been no evidence presented as to why a 60% allocation is appropriate here. In fact,
6 no party has even explained why a 60% allocation was appropriate in the KPS case.
7 Moreover, the circumstances in this case differ from the KPS case, given the fact that these
8 assets were acquired by ONEOK, Inc. at a premium price and given that ONEOK was aware
9 of a potential environmental liability when it acquired the assets. Therefore, even if there
10 had been a justification for a 60% ratepayer allocation in the KPS case, there is no reason
11 why a similar allocation would be appropriate for KGS.

12
13 **Q. Will the Settlement Agreement result in just and reasonable rates?**

14 **A.** The Settlement Agreement will result in just and reasonable rates, at least during the next
15 few years. The Settlement Agreement reflects a compromise of various parties' positions
16 and proposals. Under the Settlement Agreement, the costs of environmental remediation will
17 be shared between ratepayers and shareholders. Costs incurred through the next base rate
18 case will be amortized over a fifteen-year period, without carrying charges. This will
19 significantly ease the burden falling upon ratepayers when compared to the Company's
20 proposal. Moreover, the total level of such costs to be recovered is capped at \$15 million,
21 unless raised by the Commission upon a showing that the public interest is thereby promoted.

1 This cap, which was negotiated through settlement, mitigates the risk to ratepayers related to
2 these environmental liabilities.

3 Whether the Settlement Agreement will continue to result in just and reasonable rates
4 after the second base rate case will depend upon whether there are any changes to the
5 amortization period approved at that time. Even if a different amortization period is adopted,
6 the potential impact upon ratepayers is capped by KGS' agreement not to seek to recover
7 more than 60% of remediation costs from ratepayers. Therefore, the Settlement Agreement
8 will result in just and reasonable rates in the short term, based on a fifteen-year amortization
9 period. And if KGS or another party proposes a shorter amortization period in the future, it
10 will need to fully justify any such change to the KCC. At the same time, other parties will
11 have the opportunity to argue for a longer amortization period. I would expect that the KCC
12 would require any party that proposes a change in the amortization period to fully justify that
13 proposal, to make a compelling case as to why the fifteen-year period was no longer
14 appropriate, and to demonstrate that rates resulting from the change in the amortization
15 period are still just and reasonable.

16
17 **Q. Why do you support a fifteen-year amortization period per the Settlement Agreement,**
18 **when in your testimony you recommended that the KCC defer the issue of ratemaking**
19 **treatment until the magnitude of the remediation costs was known?**

20 **A.** As discussed in my Direct Testimony, I was concerned about the KCC authorizing a deferral
21 that would result in a "blank check" for the Company and an unknown liability for

1 ratepayers. Since the total costs related to remediation are unknown, and may be unknown
2 for some time, I recommended that the KCC defer any decision on specific ratemaking
3 treatment even if it authorized deferral of some portion of remediation costs. However, the
4 \$15 million cap reflected in the Settlement Agreement addresses this concern and caps the
5 total ratepayer liability under this agreement. Given this cap, I am comfortable with
6 establishing a fifteen-year amortization period for recovery of deferred costs.

7
8 **Q. Are the overall results of the Settlement Agreement in the public interest, including the**
9 **interests of customers represented by any party not consenting to the agreement?**

10 A. This Settlement Agreement is in the public interest. The Settlement Agreement caps the
11 MGP costs that will be recovered pursuant to the agreement and ensures that all future
12 insurance proceeds will be used to offset any deferred costs. In addition, the Settlement
13 Agreement provides for an amortization period that is sufficient to mitigate the financial
14 impact upon ratepayers. The Settlement Agreement will also reduce regulatory costs and
15 will eliminate the litigation risk inherent in continuing to litigate these issues before the
16 KCC. Therefore, until the first base rate case following the case in which these costs are
17 claimed for recovery from ratepayers, the Settlement Agreement is in the public interest.

18 In addition, while the Settlement Agreement permits the parties to seek a different
19 amortization period in subsequent rate cases, ratepayers' potential liability is capped at 60%.
20 Moreover, any change in the amortization period would have to be approved by the KCC. I
21 would expect the KCC to establish a high bar and require extensive justification for any

1 change in the fifteen-year amortization period adopted in this case.

2
3 **Q. What do you recommend?**

4 **A.** I recommend that the KCC find that all parties had the opportunity to participate in the
5 settlement process, that the Settlement Agreement is supported by substantial evidence in the
6 record, that the Settlement Agreement results in just and reasonable rates, and that Settlement
7 Agreement is in the public interest. Therefore, I recommend that the KCC approve the
8 Settlement Agreement as filed.

9
10 **Q. Does this conclude your testimony?**

11 **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 Testimony In Support of Settlement Agreement, and that the statements made therein are true to the best of her knowledge, information and belief

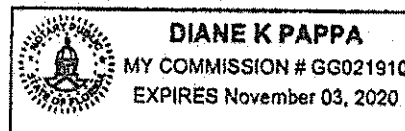
Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 12th day of October, 2017.

Notary Public

Diane K Pappa

My Commission Expires: NOVEMBER 3, 2020



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 12th day of October, 2017, to the following:

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