Exhibit No.:
Issue: Manufactured Gas Plant Cleanup, Integrated Resource Planning Cost Recovery
Witness: Shirley J. Norman
Sponsoring Party: MoPSC Staff
Case No.: ER-93-37

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

SHIRLEY J. NORMAN

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NO. ER-93-37

Jefferson City, Missouri
January, 1993

Q. What areas of the Staff's case will your direct testimony address?

A. The Company has incurred costs in the test year for the cleanup of manufactured gas plant (MGP) sites and for the preparation for compliance with the Commission's rules related to electric utility Integrated Resource Planning (IRP). I was responsible for the Staff's investigation of the test year costs incurred by MPS for these areas as well as the proposed costs estimated by the Company for inclusion in its case. In addition, I will discuss the regulatory accounting treatment of the MGP and IRP costs that we recommend be reflected in this rate case.

Q. Which adjustments are you sponsoring?

A. I am sponsoring Income Statement adjustment S-11.14, related to MGP clean up costs.

MGP CLEANUP COSTS

Q. What are manufactured gas plants?

A. Beginning in the late 1800s and continuing until just after World War II, gas was manufactured from coal and used to heat and light homes and businesses. This process was discontinued when it became possible to transport natural gas from gas wells through long distance pipelines. MGP sites, including those now or previously owned by MPS or a predecessor of MPS, were abandoned all over the United States since they were no longer economically feasible. The United States Environmental Protection Agency (EPA) as well as the Missouri Department of Natural Resources (MDNR) are in the process of identifying and evaluating these sites because of the potential contamination from coal tar and other residual chemicals left in the soil when the MGP sites were abandoned.

The Company has had a preliminary study performed by a consulting firm, Burns & McDonnell Waste Consultants, Inc. (Burns & McDonnell) (Response to Staff Data Request (DR) No. 146) in order to identify the possible sites and determine the potential for contamination. Nine Missouri sites have been identified in which MPS has a potential liability for the cleanup of contaminants (Response to Staff DR No. 152, attached as Schedule 1 to this direct testimony). This preliminary assessment report has been furnished to the EPA and the MDNR (Response to Staff DR No. 328).

Q Why weren't the sites cleaned up at the time the gas plants were decommissioned?

A. During the time period when the MPS sites ceased operations, from 1911 through 1948 (Schedule 1), there were no EPA or MDNR standards which caused these MGP sites to be deemed to be hazardous. Federal statutes have since been enacted which require stringent environmental standards.

Q. Is the Company liable for the cleanup of all nine sites?

A. Yes. According to discussions I have had with Mr. Steven W. Sturgess, the MDNR project manager who is overseeing the MGP cleanups in Missouri, all utility companies and other parties which were once owners or part-owners of MGP sites may be held jointly or severably liable for cleanup costs even if they no longer own the MGP sites. He referred us to EPA Region VII counsel for definitive answers regarding liability.

Q. Will funds be available from the national fund which was set up under the regulations set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), to finance the cleanup of hazardous waste sites?

A. According to Mr. Sturgess, the Superfund can pay for cleanup of waste sites when the party liable for the cleanup cannot be found, refuses to pay, or when an emergency situation exists. However, even in the latter cases, the Superfund will clean up the site and then charge the potentially responsible party. In addition to the clean up costs, the Superfund can assess substantial penalties for the failure of the liable party to cooperate in cleaning up a site.

Q. Does MPS own the nine MGP sites identified in the preliminary survey?

A No. One site in Lexington, two in Marshall, and the east portion of a site in Nevada, Missouri are currently owned by private parties (Response to Staff DR No. 146).

Q Is the Staff proposing that MPS be permitted to charge current ratepayers for MGP cleanups of sites which are no longer owned by MPS?

A. No. Even though MPS is liable for the cleanup of MGP sites which are no longer owned by the Company, the Staff believes that MPS stockholders have already been compensated by any gain which was realized on the sale of the property and credited in its entirety to the stockholders' equity. The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA), which is authorized by the Commission and used by MPS, requires the Company to record the gain or loss on the sale of land or other "units" of property to account 421, Miscellaneous

Nonoperating Income (FERC Electric Plant Instructions 10E), a below-the-line account. The sale of the MGP property would have been recorded using this instruction. It has been past Commission policy to follow this treatment for ratemaking purposes as well. This means that the MPS stockholders retained all benefits from the sale of the MGP land. The Staff believes that since the stockholders did not share any gain realized from the sale of MGP properties with the ratepayers, they should not expect the ratepayers to share any loss associated with the properties.

Q. How much gain was realized by the MPS stockholders from the sale of MGP sites?

A. According to the Company (Response to Staff DR No. 331), no ...mmission orders have been found which authorized the sale of the MGP properties. ...wever, the Company stockholders would have retained 100% of the gain under the ...s of the FERC chart of accounts and the past Commission policy regarding such ...ns.

Q. Is the accounting and regulatory treatment of gains and losses the same ... all types of utility property?

A. No. The gains and losses realized by MPS from the sales of land and ...entifiable "units" of property, such as power plants and buildings, are treated by the ...ommission as below-the-line entries to stockholder's equity for both accounting and ...temaking purposes. The accounting and ratemaking treatment of the gains and losses ...om sales of utility property which is not easily identified or differentiated, such as ...les, lines, and office equipment are recorded in accumulated depreciation. In effect, the ratepayers benefit from all gains and are charged with all losses realized by MPS on the sale of property other than land or "units" of property. The stockholders benefit from all gains and bear all losses realized by MPS on the sale of land or "units" of property.

Q. Why is there a different treatment for gains and losses on the sale of different types of utility property?

A. Property such as poles, lines, and office equipment which is depreciated using a group depreciation rate is not easily identified to determine when a particular pole or desk is retired. Because specific identification is burdensome to make, the FERC USOA, Rule 10C, requires that gains and losses be charged to accumulated depreciation.

Q. Does the Staff believe that the potential MGP cleanup costs can be characterized as ordinary, ongoing expenses which the Company should expect to pass on to ratepayers as a normal, ordinary cost of doing business?

A. No. Although we believe the costs will be incurred by MPS and other utilities which were or are owners of MGP sites, we cannot characterize the potential economic loss as normal or ordinary. The costs could escalate to millions of dollars as they have in other states: NARUC Bulletin, Sept/Oct 1992 - South Jersey Gas Company, $14 million for four sites, and Peoples Gas, Light and Coke Company, $2 million per year for five years. In both of these cases, the respective state public utility commissions ordered a sharing of the MGP cleanup costs between the ratepayers and the stockholders. We also believe that extraordinary losses such as the one MPS may potentially incur for MGP sites should be shared between stockholders and ratepayers, for the sites the Company still owns, using a mechanism explained later herein.

Q. Does the Staff believe that extraordinary economic gains should also be shared?

A. Yes. If the Commission includes the cost of this extraordinary loss in the Company's revenue requirement, we propose that the Commission also order the sharing of gains which are realized from the sale of land and other "units" of property which, in the past, the Commission has not directed to be shared with the ratepayers. We believe that fairness dictates that by asking ratepayers to share in such economic losses, utility companies should also be willing to share any economic gains realized from the sale of utility property as they do for utility property other than land or "units" of property.

Q. How are gains on sales of property other than land or "units" treated for regulation?

A. As stated earlier, such gains are credited to accumulated depreciation for book and ratemaking purposes which has the impact of reducing rate base, thus benefiting the ratepayers. We propose a similar treatment for gains realized on the sale of land and "units" of property.

Q. How does the Staff know that the Company sold the former MGP property at a gain?

A. Without the relevant Commission orders, it is impossible to ascertain whether a sale of property resulted in a gain or loss. The Company has not provided information as to when all of the former MGP property was sold. However, we do know the number of years each MGP was in operation (Schedule 1). The average length of time in operation for the MGP sites was 38 years. The MGP sites no longer owned by MPS were in operation for an average of 29 years (Marshall - 8 years and 41 years, Lexington - 37 years, and Nevada - 29 years). We can only surmise that the property would have appreciated in value over the years in operation and, depending on when the MGP property was sold, a longer period of MPS ownership may have resulted in an even larger gain. For example, the Marshall MGP which was in operation for only eight years was actually owned by the Company from 1924 until it was sold in 1973 (Response to Staff DR No. 445).

Q. Doesn't all utility property belong to the stockholders?

A. Yes, it does. However, it is assumed for ratemaking purposes that the property was purchased with both debt and equity funds. This is why all parties in a rate case apply a weighted average rate of return to the rate base in order to acknowledge that property is purchased by both debt and equity in a pro rata manner. The ratepayers pay all interest costs and even fund principal repayments through depreciation expense. Therefore, the Staff believes that economic gains related to the sale of land or "units" of property should be shared using a debt/equity ratio. For example, the gain on the sale of property owned during a certain period of time would be shared between the stockholders and ratepayers using the average percentage of k term debt and equity included in the capital structure over that same period of ti with the portion attributable to debt given to the ratepayer.

Q. Why should current ratepayers pay any costs related to plant that only b fited prior ratepayers?

A. Even though the usefulness of the MGPs in providing service to ra yers ceased long ago, no one at that prior time could foresee the changes in e onmental standards which have occurred in recent years. During the time when M were decommissioned, there was no hint of the environmental standard changes w have occurred in recent years. It should be noted that any recovery of MGP c by MPS from current ratepayers goes against a strict definition of the concept of rgeneratio al equity.

The Staff has developed a regulatory recovery method which will provide a sh g of the MGP cleanup costs between the MPS stockholders and ratepayers. We h determined that the necessity for the MGP cleanup is beyond the control of MPS si the cleanup will be directed by the EPA and/or MDNR under provisions di ssed in Company witness Beck's direct testimony at pages 18 and 19. In ad on, MPS was unable to foresee the need to provide for the ratepayers of MGP se es to pay for environmental cleanup of the sites.

Q. Is MPS seeking to recover these costs from anybody other than current ra ayers?

A. Yes. MPS has taken steps to try to determine the Company's liability f ach of the identified sites and notified current and former insurance companies th... ns will be ... to try to recover damages under existing or former insurance pol... However, there are indications from the insurance companies (Response to Sta... No. 149) that they may not be receptive to such claims, so any mitigation of dam... is not known at this time and may be far in the future, if ever.

Is MPS seeking recovery from all possible sources?

No. We are concerned that the Company has not notified other pot... responsible parties, such as current owners of the MGP sites or joint owners of ...MGPs, if any, and has not sought to recover a share of the MGP cleanup costs from ... (Response to Staff DR Nos. 444 and 448). We recommend that the Com...ion order the Company to continue to pursue such claims to minimize its liabil... to fund cleanup of the sites, and that any net recovery of damages from insu... companies and other potentially responsible parties, whenever it occurs, sho... credited to the ratepayers using the same methodology which charges costs of t... MGP cleanup to the ratepayers.

What will be the final cost of the MGP site cleanup?

No one knows at this time. It will depend on whether the contaminants have m...ated into the groundwater. Until each site is investigated in depth, the extent of the c...amination, if any, will not be known. According to the Company (Response to Sta... No. 155) an in-depth investigation will be done on two of the sites which are yet ...e determined.

Will the Company perform the work itself?

A. No. According to the work plan submitted by the consultant Burns & McDonnell, chosen by MPS to perform the investigation, (Response to Staff DR No. 300), the work will be done in two steps. First, a preliminary site investigation will be performed which will consist of a risk assessment to determine whether further core samples need to be obtained or, in some cases, to determine that no further action is needed. Step two will consist of an evaluation of any remedial action which needs to be done.

Q. Does this cleanup have to be done immediately?

A. No. According to Mr. Sturgess of MDNR, this may be a long process. First, the Company must identify the MGP sites and the extent of the contamination, and then propose a cleanup schedule which will have to be approved by the MDNR. So far, the Company has not proposed a cleanup schedule to the MDNR. I was told by Mr. Sturgess that if the traditional Superfund process is used, the total cleanup process will take years to complete for most companies. However, EPA is encouraging an accelerated approach in remediating sites under the new Superfund Accelerated Cleanup Model (SACM) approach. Under SACM, EPA, the state, and the utility may agree to cleanups with only a few months of prior study.

Q. Have any funds been expended by MPS to date for MGP cleanup?

A. No. However, the Company has expended $74,071 in the test year for an initial identification and general evaluation of the nine sites. This amount includes payment of legal fees totalling $29,534 which were incurred to put present and former insurance carriers on notice that the Company would seek reimbursements related to property damage claims. The total amount is currently recorded in a deferred balance sheet account on the Company's books and is not included in the test year income statement. The Company's expenditures for this preliminary work will be mitigated by the income tax savings of $26,829, which will leave an out-of-pocket expenditure of $47,242 which was paid by the Company for MGP cleanup costs in the test year.

Q. What amount did the Staff include in the cost of service for this case?

A. I have attached Schedule 2 to this direct testimony to simplify the explanation of the Staff's adjustment regarding MGP cleanup costs. As previously discussed, we do not believe that the current ratepayers should be charged with any of the costs related to sites no longer owned by MPS. Therefore, we have removed a representative amount from the test year expenditures related to the three and a half sites which are no longer owned by MPS. However, a contract has been entered into with Burns & McDonnell for work to be accomplished in the first half of 1993 on one or two of the sites (Response to Staff DR No. 419). We have added an additional contract amount (Schedule 2, Line 8) to the adjusted funds already expended in the test year to arrive at the amount the Staff believes should be included in the cost of service in this case. This contract amount will be reexamined and adjusted during the true-up audit to determine actual cost incurred by MPS. We propose this representative amount be amortized over four years to recognize the time period between rate orders, as presently anticipated by MPS. We have not included any of the unrecovered balance in rate base. By not allowing a return on unamortized MGP costs, this ratemak ethodology results in a sharing of costs between the MPS ratepayers and stockho This adjustment is shown as adjustment No. S-11.14.

Is the Staff's proposed treatment of MGP costs similar to past Comm treatment of other extraordinary losses?

Yes. The Commission has, in the past, ordered the sharing of the costs betwee payers and shareholders of such extraordinary losses as major storm damag certain power plant outages. The sharing was accomplished through an amort of the loss over a certain number of years, with no rate base treatment given amortized costs.

Please summarize how the MGP cleanup costs will be shared between the Co y shareholders and the ratepayers.

The Staff has proposed several sharing mechanisms:

1. Since the cleanup of contaminated MGP sites will take place over a number of years, the stockholders will be required to fund the cleanup initially until the expense can be recovered through the cost of service by means of a rate case.

2. Any income tax benefits derived from this cost recovery are to be flowed through to the ratepayers.

3. MPS ratepayers will not be charged for a share of MGP cleanup costs for the sites which are no longer owned by MPS because MPS shareholders have already benefited from gains realized on the sale of the MGP land. The Commission, for prospective

purposes regarding future events, should reexamine its policy related to gains on sales of land and "units" of property to recognize that if ratepayers are asked to share in economic losses, they should also share in economic gains.

4. If, as expected, MGP cleanup costs escalate in the future, the Staff will likely propose a longer amortization period for recovery in future rate cases. A longer amortization period will mitigate the impact on the rates of customers who will share the cost of the MGP site cleanups, as well as recognize the length of time over which these plants were in operation.

IRP COST RECOVERY

The Company has projected a significant increase of $1,890,239 in total electric costs which it expects to incur in the future due to the Commission's adoption of electric utility IRP rules. What would cause such an increase to occur?

The Commission has adopted new rules (4 CSR 240-22.010 - 22.080 Electric Utility Resource Planning) which will require each major electric utility to "consider and analyze demand-side efficiency and energy management measures on an equivalent basis with supply-side alternatives in the resource planning process". The Company will be required to file an IRP strategy with the Commission every three years, which will take these factors into consideration.

When will the Company be required to file its strategy?

MISSOURI PUBLIC SERVICE
DATA INFORMATION REQUEST
Case No. ER-93-37

No. PSC 15[illegible]

Reques[illegible]d From: Brad Lewis

Date Re[illegible]uested: October 30, 1992

Informa[illegible]on Requested: If the task force report related to manufactured gas plant cleanup which was requested in Data Request No. 151 does not provide documentation which details the years that manufactured gas plants were operating and the year in which each site was decommissioned, provide a schedule which details this activity for each site.

Reques[illegible]d By: Shirley Norman

Informa[illegible]on Provided: Based on the available information, listed below for each former manufactured gas plant are the beginning and ending year of operation. MPS does not have comprehensive records which reflect the operating status of the plants on an annual basis. MPS is not aware of records which indicate the year in which each site was decommissioned.

Plant (City)	Location	Beginning Year	Ending Year
Chillicothe	Bridge and Calhoun Streets	1892	1939
Clinton	6th and Elm Streets	1883	1930
Lexington	10th Street and Highland Ave	1887	1924
Lexington	Farrar Street and Southwest Blvd	1924	1931
Marshall	Boyd Street and Lafayette Ave	1883	1924
Marshall	English Street and Eastwood Ave	1924	1932
Nevada	East Walnut and East Austin	1882	1911
Sedalia	Benton Street and Moniteau Ave	1868	1931
Trenton	10th and Grant Streets	1886	1948

Date Information Provided: November 16, 1992

SCHEDULE 1-2

MISSOURI PUBLIC SERVICE COMPANY
MANUFACTURED GAS PLANT CLEANUP COSTS
TYE 9/30/92, CASE NO. ER-93-37

LINE NO.	DESCRIPTION	AMOUNT
1	MGP Test Year Costs	$74,071
2	Income Tax Savings @ 36.22%	26,829
3	Net Test Year Expense	$47,242
4	Number of MGP Sites	9
5	Net Cost Per Site	$5,249
6	MGP Sites Currently Owned	5.5
7	Net Test Year Costs	$28,870
8	Estimated 1993 Costs	250,000
9	Total to be recovered	$278,870
10	Electric Factor	84.39%
11	Retail Factor	98.48%
12	Total Electric Retail	$231,762
13	Recovery Period (4 Years)	4
14	MGP Adjustment	$57,940

SCHEDULE 2