

*Exhibit No.:*  
*Issue:* **Manufactured Gas Plant  
Cleanup**  
*Witness:* **Shirley J. Norman**  
*Sponsoring Party:* **MoPSC Staff**  
*Case No.:* **GR-93-172**

**MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY  
OF  
SHIRLEY J. NORMAN**

**FILED**  
MAY 26 1993  
MISSOURI  
PUBLIC SERVICE COMMISSION

**MISSOURI PUBLIC SERVICE,  
A DIVISION OF UTILICORP UNITED, INC.**

**CASE NO. GR-93-172**

*Jefferson City, Missouri  
May, 1993*

**RECEIVED**  
JUN 02 1993

**ACCOUNTING DEPT.  
PUBLIC SERVICE COMMISSION**

1                                   **DIRECT TESTIMONY**  
2                                   **OF**  
3                                   **SHIRLEY J. NORMAN**  
4                                   **MISSOURI PUBLIC SERVICE,**  
5                                   **A DIVISION OF UTILICORP UNITED, INC.**  
6                                   **CASE NO. GR-93-172**

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8           Q.     Please state your name and business address.

9           A.     Shirley J. Norman, State Office Building, Suite 510, 615 East Thirteenth Street,  
10   Kansas City, Missouri 64106.

11          Q.     By whom are you employed and in what capacity?

12          A.     I am an Assistant Manager of the Accounting Department, Kansas City Office,  
13   with the Missouri Public Service Commission (Commission).

14          Q.     Describe your educational and professional background.

15          A.     I graduated from Cameron University, Lawton, Oklahoma, in July of 1981 with  
16   a Bachelor of Science degree, and a major in Accounting. In November of 1981, I successfully  
17   completed the Certified Public Accountant (CPA) examination and was subsequently issued an  
18   Oklahoma certificate.

19                My first professional employment was with the Internal Revenue Service as a Revenue  
20   Agent. I conducted audits of businesses to determine their correct tax liability. My next  
21   employment was with the Kerr-McGee Corporation as a Revenue Accountant in charge of  
22   accounting for all Kerr-McGee Canadian oil and gas revenues and payouts. I was also  
23   responsible for preparing the Canadian tax returns for that corporation.

24                In April, 1983, I began my employment with the Oklahoma Corporation Commission as  
25   a CPA/auditor. In 1985, I was promoted to Audit Section Coordinator. As such, I was  
26   responsible for direct supervision of the Audit Staff including review of the Staff's workpapers,  
27   exhibits, and testimony regarding utility revenue requirements recommended to upper  
28   management, and subsequently to the Oklahoma Commission on all rate cases, reviews, and other

Direct Testimony of  
Shirley J. Norman

miscellaneous cases. I also researched and prepared recommendations on new accounting, tax, and regulatory issues for consideration by upper management. In September, 1991, I left the Oklahoma Commission to take the position as Assistant Manager of the Accounting Department with the Missouri Commission.

Q. Have you testified previously before this Commission?

A. Yes. I filed testimony in Case No. WR-92-85, Raytown Water Company; Case Nos. WR-92-207 and SR-92-208, Missouri Cities Water Company; and Case No. ER-93-37, Missouri Public Service. In addition, I have testified numerous times in utility cases before the Oklahoma Commission.

Q. What were your responsibilities in this case?

A. The Accounting Department's audit findings and subsequent recommendations in Case No. GR-93-172 for Missouri Public Service (MPS or Company), a division of UtiliCorp United, Inc., were prepared under my general supervision.

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 which have been allocated to both the gas and electric jurisdictions. I was responsible for the Staff's investigation of the test year costs incurred by MPS for this area 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 costs that we recommend be reflected in this rate case.

Q. Which adjustments are you sponsoring?

A. I am sponsoring Income Statement adjustment S-8.1, related to MGP cleanup costs as allocated to the gas customers. The remainder of the Staff's adjustment was allocated to the electric customers in MPS Case No. ER-93-37.

Q. What are manufactured gas plants?

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

11 The Company has had a preliminary study performed by a consulting firm, Burns &  
12 McDonnell Waste Consultants, Inc. (Burns & McDonnell) (Response to Staff Data Request No.  
13 146, MPS Case No. ER-93-37) in order to identify the possible sites and determine the potential  
14 for contamination. Nine Missouri sites have been identified in which MPS has a potential  
15 liability for the cleanup of contaminants (Response to Staff DR No. 152, Case No. ER-93-37,  
16 attached as Schedule 1 to this direct testimony). This preliminary assessment report has been  
17 furnished to the EPA and the MDNR (Response to Staff DR No. 328, Case No. ER-93-37).

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

19 A. During the time period when the MPS sites ceased operations, from 1911 through  
20 1948 (Schedule 1), there were no EPA or MDNR standards which caused these MGP sites to be  
21 deemed to be hazardous. Federal statutes have since been enacted which require stringent  
22 environmental standards.

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

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

3  
4 Q. Will funds be available from the national fund which was set up under the  
5 regulations set forth in the Comprehensive Environmental Response, Compensation and Liability  
6 Act of 1980 (Superfund), to finance the cleanup of hazardous waste sites?

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

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

13 A. No. One site in Lexington, two in Marshall, and the east portion of a site in  
14 Nevada, Missouri are currently owned by private parties (Response to Staff DR No. 146, Case  
15 No. ER-93-37).

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

18 A. No. Even though MPS is liable for the cleanup of MGP sites which are no longer  
19 owned by the Company, the current MPS ratepayers should not be required to contribute to clean  
20 up MGP sites which are no longer used and useful in providing service to these customers.  
21 Three and one-half of the nine sites were sold long ago (Response to Staff DR No. 331, Case  
22 No. ER-93-37) and are no longer used to provide utility service of any kind. The Staff believes  
23 that maintenance costs pertaining to non-utility property, whether it be ordinary or extraordinary,  
24 should not be charged to utility ratepayers. We have removed a representative amount of the test  
25 year costs related to site investigations for property which is no longer used and useful as shown  
26 on Schedule 2 to this direct testimony.

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2 Q. Does the Staff believe that the potential MGP cleanup costs for the remaining five  
3 and one-half sites which the utility currently uses in utility operations can be characterized as a  
4 normal, ordinary cost of doing business?

5 A. No. Although we believe the costs will be incurred by MPS and other utilities  
6 which were or are owners of MGP sites, we cannot characterize the potential economic loss as  
7 normal or ordinary. The costs could escalate to millions of dollars as they have in other states.  
8 For example, the NARUC Bulletin of September 7, 1992 references South Jersey Gas Company  
9 as having a \$14 million liability for four sites; and the October 19, 1992 NARUC Bulletin states  
10 that Peoples Gas, Light and Coke Company, a \$10 million liability. In both of these cases, the  
11 respective state public utility commissions ordered a sharing of the MGP cleanup costs between  
12 the ratepayers and the stockholders. The Staff believes that extraordinary losses such as those  
13 MPS may potentially incur for cleanup of the MGP sites the Company still owns should be  
14 shared between stockholders and ratepayers using a mechanism explained later herein.

15 Q. Why should current ratepayers pay any part of the cleanup costs related to gas  
16 plants that only benefited prior ratepayers?

17 A. Even though the cause of the contaminants arose because of the MGP operations  
18 which benefitted former ratepayers, the MGP sites are currently used in utility operations. In  
19 addition, during the time when MGPs were decommissioned, there was no hint of the  
20 environmental standard changes which have occurred in recent years. However, due to the  
21 extraordinary nature of the cleanup costs, the Staff believes that the costs should be shared  
22 between the ratepayers and the stockholders.

23 Q. Is MPS seeking to recover these costs from anybody other than current ratepayers?

24 A. Yes. MPS has taken steps to try to determine the Company's liability for each of  
25 the identified sites and notified current and former insurance companies that claims will be filed  
26 to try to recover damages under existing or former insurance policies. However, there are  
27 indications from the insurance companies (Response to Staff DR No. 149, Case No. ER-93-37)

1 that they may not be receptive to such claims, so any mitigation of damages is not known at this  
2 time and may be far in the future, if ever.

3  
4 Q. Is MPS seeking recovery from all possible sources?

5 A. No. We are concerned that the Company has not notified other potentially  
6 responsible parties, such as current owners of the MGP sites or joint owners of the MGPs, if any,  
7 and has not sought to recover a share of the MGP cleanup costs from them (Response to Staff  
8 DR Nos. 444 and 448, Case No. ER-93-37). We recommend that the Commission order the  
9 Company to continue to pursue such claims to minimize its liability to fund cleanup of the sites,  
10 and that any net recovery of damages from insurance companies and other potentially responsible  
11 parties, whenever it occurs, should be credited to the ratepayers using the same methodology  
12 which charges costs of the MGP cleanup to the ratepayers.

13 Q. What will be the final cost of the MGP site cleanup?

14 A. No one knows at this time. It will depend on whether the contaminants have  
15 migrated into the groundwater. Until each site is investigated in depth, the extent of the  
16 contamination, if any, will not be known. According to the Company (Response to Staff DR No.  
17 155, Case No. ER-93-37), an in-depth investigation will be done on two of the sites which are  
18 yet to be determined.

19 Q. Will the Company perform the work itself?

20 A. No. According to the work plan submitted by the consultant Burns & McDonnell,  
21 chosen by MPS to perform the investigation (Response to Staff DR No. 330, Case No.  
22 ER-93-37), the work will be done in two steps. First, a preliminary site investigation will be  
23 performed which will consist of an evaluation of any remedial action which needs to be done.

24 Q. Does this cleanup have to be done immediately?

25 A. No. According to Mr. Sturgess of MDNR, this may be a long process. First, the  
26 Company must identify the MGP sites and the extent of the contamination, and then propose a  
27 cleanup schedule which will have to be approved by the MDNR. So far, the Company has not  
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1 proposed a cleanup schedule to the MDNR. I was told by Mr. Sturgess that if the traditional  
2 Superfund process is used, the total cleanup process will take years to complete for most  
3 companies. However, EPA is encouraging an accelerated approach in remediating sites under  
4 the new Superfund Accelerated Cleanup Model (SACM) approach. Under SACM, EPA, the  
5 state, and the utility may agree to cleanups with only a few months of prior study.  
6

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

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

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

18 A. I have attached Schedule 2 to this direct testimony to simplify the explanation of  
19 the Staff's adjustment regarding MGP cleanup costs. As previously discussed, we do not believe  
20 that the current ratepayers should be charged with any of the costs related to sites no longer  
21 owned by MPS since this property is no longer used and useful in providing service to current  
22 ratepayers. Therefore, we have removed a representative amount from the test year expenditures  
23 related to the three and a half sites which are no longer owned by MPS. However, a contract  
24 has been entered into with Burns & McDonnell for work to be accomplished in the first half of  
25 1993 on one or two of the sites (Response to Staff DR No. 419, Case No. ER-93-37). We have  
26 added an additional contract amount (Schedule 2, Line 8) to the adjusted funds already expended  
27 in the test year to arrive at the amount the Staff believes should be included in the cost of service  
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1 in this case. We propose this representative amount be amortized over four years to recognize  
2 the time period between rate orders, as presently anticipated by MPS. We have not included any  
3 of the unrecovered balance in rate base. By not allowing a return on unamortized MGP costs,  
4 this ratemaking methodology results in a sharing of costs between the MPS ratepayers and  
5 stockholders. This adjustment is shown as adjustment No. S-8.1.

6  
7 Q. Is the Staff's proposed treatment of MGP costs similar to past Commission  
8 treatment of other extraordinary losses?

9 A. Yes. The Commission has, in the past, ordered the sharing of the costs between  
10 ratepayers and shareholders of such extraordinary losses as major storm damages and certain  
11 power plant outages. The sharing was accomplished through an amortization of the loss over a  
12 certain number of years, with no rate base treatment given to unamortized costs.

13 Q. Please summarize how the MGP cleanup costs will be shared between the  
14 Company shareholders and the ratepayers.

15 A. The Staff has proposed several sharing mechanisms:

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

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

21 3. MPS ratepayers will not be charged for a share of MGP cleanup costs for  
22 the sites which are no longer owned by MPS because the property is no longer used and  
23 useful in providing utility service. In addition, the Commission should re-examine its  
24 policy related to gains on sales of land and "units" of property which were formerly  
25 credited to the stockholders. We believe that economic gains should be shared just as  
26 economic losses are shared.

1  
2 4. If, as expected, MGP cleanup costs escalate in the future, the Staff will  
3 likely propose a longer amortization period for recovery in future rate cases. A longer  
4 amortization period will mitigate the impact on the rates of customers who will share the  
5 cost of the MGP site cleanups, as well as recognize the length of time over which these  
6 plants were in operation.

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.  
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**OF THE STATE OF MISSOURI**

Case No. GR-93-172

# AFFIDAVIT OF SHIRLEY J. NORMAN

**SS.**

Shirley J. Norman

*Standa J. King*  
 Notary Public  
*Cole County Missouri*

My Commission Expires:

OCT 30 1992

Requested From: BRAD LEWIS  
Date Requested: 10/19/92  
Information 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.

Requested By: Shirley Nordan

Information Provided:

SEE ATTACHED

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. ER-93-37 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the MISSOURI PUBLIC SERVICE DIVISION office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any forecast, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to MISSOURI PUBLIC SERVICE DIVISION and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By:

*Sam Cleman*

Date Response Received:

11-17-92  
LKW

Prepared By:

*Robert Beck*

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

**No. PSC 152**

**Requested From:** Brad Lewis

**Date Requested:** October 30, 1992

**Information 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.

**Requested By:** Shirley Norman

**Information 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

MISSOURI PUBLIC SERVICE  
MANUFACTURED GAS PLANT CLEANUP COSTS  
TYE 9/30/92, CASE NO. GR-93-172

LINE NO.	DESCRIPTION	AMOUNT
1	MGP Test Year Costs	\$74,071
2	Number of MGP Sites	9
3	Net Cost Per Site	\$8,230
4	MGP Sites Currently Owned	5.5
5	Net Test Year Costs	\$45,266
6	Estimated 1993 Costs	250,000
7	Total Recovery Amount	\$295,266
8	Gas Factor	15.61%
9	Retail Factor	100.00%
10	Total Gas Retail	\$46,091
11	Recovery Period (4 Years)	4
12	MGP Gas Adjustment	\$11,523 =====
	FLOW-THROUGH OF INCOME TAXES:	
13	Tax Expense	\$46,091
14	Regulatory Expense	11,523
15	Timing Difference	\$34,568
16	Effective Tax Rate	0.3622
17	Income Tax Flow-through	\$12,521 =====

NOTE: 1. Flow-through of the tax benefit is recognized on the Staff's income tax schedule.