



NEWS ALERT

New York State Scrutinizes MGP Response Costs

New York State's Public Service Commission (PSC) recently¹ commenced a proceeding for a "statewide, comprehensive, and cohesive review" of the estimated \$2 billion in future remediation costs for NY state manufactured gas plant (MGP) sites. The purpose of this proceeding is to ensure that only equitable amounts are recovered from utility ratepayers and that there are "sufficient processes in place for remediation efforts to be done in the most reasonable and cost-effective manner possible."

As part of the proceeding, the PSC is requesting a wide range of detailed cost information from regulated utility companies, including:

- Incurred past and estimated annual future costs for each of the 200+ sites;
- Documentation of the cost estimation methodology used by the utilities, and how it has changed over time;
- Reasons for uncertainty/departures between estimated and actual costs;
- Documentation of efforts for third-party (insurance carrier, PRPs) cost recovery; and
- Documentation of internal controls to ensure responses are cost-effective.

The outcome of this proceeding will not only define rate recovery in NY State, but may also sway other states' utility commissions to further examine MGP response costs.

This PSC action reinforces the need not only to prepare defensible cost estimates that can withstand scrutiny, but also to ensure consistency between estimates that may have been prepared to serve a wide range of purposes for a utility's MGP portfolio, such as:

- Financial disclosure to shareholders (per FAS/SEC requirements);
- Setting internal budgets and reserves;
- Selecting a site remedy that satisfies CERCLA's cost-effectiveness mandate;
- Rate-payer recovery;
- Insurance recovery; and
- Negotiated settlements.

Gradient can assist you with developing approaches and implementing cost estimates for individual sites and portfolios, as well as providing third-party oversight/consolidation for estimates prepared by others. We have done so using probabilistic (and other) techniques for a wide range of purposes, and the scope of our work has included response and third-party costs, as well as risk premium adjustments. Gradient's analysis can provide accurate, comprehensive, and defensible results.

¹Ruling on Procedure and Schedule issued March 8, 2011; Order Instituting Proceeding issued February 18, 2011.

For more information on Environmental Liability Cost Estimation, contact:

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