

In the Matter of the Application of)
Kansas Gas Service, A Division)
of ONEOK, Inc. for Adjustment of) DOCKET 12-KGSG-~~85~~85RTS
its Natural Gas Rates in the State)
of Kansas)

Received
on

MAY 18 2012

by
State Corporation Commission
of Kansas

DIRECT TESTIMONY
OF
LORNA M. EATON
ON BEHALF OF
KANSAS GAS SERVICE
A DIVISION OF ONEOK, INC

**DIRECT TESTIMONY
OF
LORNA M. EATON
KANSAS GAS SERVICE
DOCKET 12-KGSG-___-RTS**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Lorna M. Eaton. My business address is 7421 W. 129th Street, Overland
4 Park, Kansas 66213.

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am employed by Kansas Gas Service, a Division of ONEOK, Inc. ("KGS" or the
7 "Company"), as a Rates Analyst II in the Rates and Regulatory Department.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 A. I received a Bachelor of Science in Geology from Kansas State University in 1996
11 and worked in the KSU Geology department following graduation. I began my
12 employment with KGS in 2000, as an Accountant in the General Accounting
13 Department and moved to the Financial Planning Department as a Budget Analyst.
14 I am currently a Rates Analyst II in the Rates and Regulatory Department.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. I am sponsoring certain pro forma adjustments necessary to annualize various costs
17 in the test-year, to reflect known and measurable post-test-year changes, and to
18 normalize other test-year costs. Specifically, I am sponsoring Adjustments IS 22
19 through IS 29. My testimony presents financial and accounting data taken directly
20 from KGS's accounting records.

1 **II. PAYROLL AND PAYROLL TAX**

2 **Q. PLEASE DISCUSS ADJUSTMENT IS 22.**

3 A. Adjustment IS 22 increases test period Operational & Maintenance (O&M) costs by
4 \$1,108,060. This adjustment is necessary to annualize payroll and payroll tax costs
5 during the test period. This adjustment is also necessary to reflect post test period
6 wage changes. The adjustment incorporates the following calculations:

- 7 • Annualizes costs of employees terminating and transferring employment
8 during the test period and for known changes through April, 2012.
- 9 • Annualizes costs of employees hired during the test period.
- 10 • Annualizes payroll costs for union wage increases effective July 1, 2012.
- 11 • Annualizes payroll costs for union wage increases effective November 1,
12 2012.
- 13 • Annualizes payroll costs for non-union wage increases that became effective
14 on or before March 30, 2012.
- 15 • Annualizes payroll taxes based upon the above calculations.
- 16 • Annualizes corresponding 401k costs based on the above calculations.
- 17 • Annualizes the corresponding Defined Contribution retirement plan costs for
18 employees hired after January 1, 2012.

19 The adjustment is spread to various O&M accounts based upon test period payroll
20 distribution.

21 **III. DEPRECIATION AND AMORTIZATION EXPENSE**

22 **Q. PLEASE EXPLAIN ADJUSTMENTS IS 23 AND IS 24 RELATED TO**
23 **DEPRECIATION AND AMORTIZATION EXPENSE.**

24 A. Adjustment IS 23, Annualized Depreciation on Pro Forma Plant, accounts for the
25 effects of annualizing depreciation expense based on the pro-forma plant in service

1 balances. The plant in service account numbers are based on the accounting
2 requirements of the Federal Energy Regulatory Commission Uniform System of
3 Accounts. The current depreciation rates are those approved by this Commission
4 and were in effect during the test year. The annualized depreciation expense
5 amount was compared to the amounts charged to depreciation expense in the test
6 year for each asset account balance. The difference between the amount calculated
7 and the amount recorded during the test year represents the expense adjustment to
8 reflect on-going expense levels at current depreciation rates. This adjustment
9 increases operating expense in the amount of \$528,401.

10 Adjustment IS 24 reflects the new depreciation rates resulting from the
11 depreciation study conducted by Dr. Ron White. The new proposed rates are applied
12 to the pro forma plant in service to calculate the new annualized depreciation
13 expense. This amount is compared to the annualized expense at current rates to
14 determine the “incremental” annual expense adjustment that results from the change
15 in depreciation rates. This adjustment increases operating expenses \$4,455,065.

16 **IV. ADJUSTMENTS TO CLEARING ACCOUNTS**

17 **Q. PLEASE EXPLAIN ADJUSTMENT IS 25.**

18 A. Adjustment IS 25 decreases O&M costs \$249,361 by normalizing O&M costs that
19 were not cleared in the test period. This adjustment netted the over/under cleared
20 amounts for two unrelated activities: stores loadings and vehicle clearings.

21 **Q. PLEASE EXPLAIN THE UNDERLYING ACCOUNTING FOR CLEARING**
22 **ACCOUNTS AND WHY AN ADJUSTMENT FOR EACH CLEARING PROCESS IS**
23 **APPROPRIATE.**

24 A. Clearing accounts are used to capture certain costs in an asset account associated
25 with various activities. A clearing rate is developed and charged to appropriate O&M

1 accounts based upon different factors. The vehicle loading rates are charged based
2 on vehicle usage and are related to the actual labor account distribution of the
3 employee operating the vehicle or work equipment. The stores loading rates are
4 charged based upon the O&M account that the storeroom material was charged
5 during the test year. The clearing rates are based upon estimates and therefore will
6 not precisely match the actual charges incurred by KGS. A review of the beginning
7 and ending balances of each of the clearing accounts indicated that an adjustment
8 needed to be made to accurately reflect the actual expenses that occurred during the
9 test year. The net of these two offsetting clearing account adjustments is a reduction
10 in test period O&M costs of \$249,361.

11 **V. METER READING COST**

12 **Q. PLEASE EXPLAIN ADJUSTMENT IS 26.**

13 A. Adjustment IS 26 increases test-year customer accounts expense – Meter Reading
14 by \$22,681. This adjustment annualizes the impact of the increase in Cellnet meter
15 reading costs that became effective on October 1, 2011.

16 **VI. BILL PRINT COSTS**

17 **Q. PLEASE EXPLAIN ADJUSTMENT IS 27.**

18 A. Adjustment IS 27 increases test-year expenses by \$270,819 by annualizing known
19 and measurable increases in bill print costs. This adjustment incorporates the new
20 bill print rates and applies them to test period quantities.

21 **VII. MISCELLANEOUS GENERAL EXPENSE – CUSTOMER DEPOSITS**

22 **Q. PLEASE EXPLAIN ADJUSTMENT IS 28.**

23 A. Adjustment IS 28 increases Miscellaneous General Expenses \$21,097 and is
24 necessary to incorporate the interest expense on customer deposits into the KGS
25 revenue requirement.

1 The balance of accrued customer deposits (a liability) is reflected as a reduction to
2 rate base as identified in Schedule 6-A of the Minimum Filing Requirements.
3 However, while the liability balance represents customer provided capital, there is a
4 corresponding cost that is applied to customer deposits, currently established by the
5 Commission at 0.12%. A pro forma adjustment applying the Commission-authorized
6 rate to the test year-end balance is required.

7 **VIII. SHARED SERVICES AGREEMENT WITH WESTAR ENERGY**

8 **Q. PLEASE EXPLAIN ADJUSTMENT IS 29.**

9 A. Adjustment IS 29 increases total expenses by \$38,491 to annualize the impact of the
10 revised Shared Services contract between Westar Energy and KGS that became
11 effective December 1, 2011.

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

13 A. Yes.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Lorna M. Eaton, being duly sworn upon her oath, deposes and states that she is Rate Analyst II, Rates and Regulatory Department for Kansas Gas Service, a Division of ONEOK, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

Lorna M Eaton
LORNA M. EATON

Subscribed and sworn to before me this 14th day of May 2012.

JO M Smith
NOTARY PUBLIC

My Appointment Expires:

9/28/2012

