

**Testimony
of
David Dittmore**



BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of ONEOK, Inc. for)
an Order Authorizing its Plan of Reorganization) Docket No. 14-KGSG-100-MIS

DIRECT TESTIMONY OF DAVID N. DITTEMORE

1 I. **INTRODUCTION**

2 Q. **STATE YOUR NAMES AND BUSINESS ADDRESS.**

3 A. My name is David N. Dittmore. My business address is 7421 West 129th Street, Overland
4 Park, Kansas 66213.

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

6 A. I am employed by Kansas Gas Service, a Division of ONEOK, Inc. ("Kansas Gas Service").
7 I am Manager of Rates and Regulatory Affairs.

8 Q. **STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.**

9 A. I received a Bachelor of Science Degree in Business Administration with a major in
10 Accounting from the University of Central Missouri in 1982. I am a Certified Public
11 Accountant. I was previously employed by the Kansas Corporation Commission
12 ("Commission") in various capacities including Managing Auditor, Chief Auditor and Director
13 of Utilities. During my career I have been employed by WorldCom (telecommunications) and
14 Williams Companies (Williams Energy Marketing and Trading). From 2003-2007, I was self
15 employed providing regulatory consulting services on behalf of clients dealing with
16 telecommunications, electric and natural gas regulatory issues.

17 Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION**

1 **COMMISSION ("COMMISSION")?**

2 A. Yes. I have testified before the Commission on numerous occasions.

3 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY?**

4 A. My testimony covers the following:

5 (1) I testify as to what impact the reorganization will have on the public utility's
6 rate base.

7 (2) I testify that there will be no impact on tax revenues of any political subdivision
8 where Kansas Gas Service's Kansas Assets, as defined in the Application, are located.

9 (3) I explain how liabilities related to employee and retiree benefit plans will be
10 assigned to ONE Gas Inc. ("ONE Gas") under the reorganization.

11 (4) I confirm Kansas Gas Service's ongoing compliance with existing regulatory
12 requirements; what impact the reorganization plan will have on Kansas Gas Service's public
13 utility business; how the Commission will retain jurisdiction over ONE Gas' and Kansas Gas
14 Service's public utility operations after the reorganization; and support for ONEOK's request
15 for approval to transfer tariff rates, terms and conditions of service, certificates of public
16 convenience and necessity and franchises to ONE Gas.

17 (5) I explain how the reorganization will result in stream-lining and improving
18 regulatory oversight of the Kansas natural gas utility operations.

19 (6) I intend to file supplemental testimony explaining how the proposed
20 reorganization plan will impact Kansas Gas Service's cost of service after the reorganization
21 has been completed.

22 (7) I intend to also file supplemental testimony in support of ONEOK's right to

1 recover the costs of the reorganization plan that may be assigned to Kansas Gas Service and
2 a plan on how such costs would be recovered in rates.

3 **II. IMPACT OF REORGANIZATION ON PUBLIC UTILITY'S RATE BASE**

4 **Q. WILL THERE BE ANY INCREASE OF THE UTILITY RATE BASE AS A RESULT**
5 **OF THE REORGANIZATION?**

6 A. No. The property and equipment of the Natural Gas Distribution Business, as that term is used
7 in the Application, are being transferred to ONE Gas at their net book value so there is no
8 increase or write-up of the utility rate base as a result of the reorganization.

9 **Q. WHAT IS THE APPROXIMATE NET BOOK VALUE OF THE NATURAL GAS**
10 **DISTRIBUTION ASSETS?**

11 A. The approximate net book value of the assets of the Natural Gas Distribution Business is \$2.8
12 billion.

13 **Q. WILL THERE BE ANY REDUCTION TO THE CURRENT ACCUMULATED**
14 **DEFERRED INCOME TAXES ("ADIT") BALANCE APPLICABLE TO THE**
15 **NATURAL GAS DISTRIBUTION BUSINESS?**

16 A. No. All Kansas Gas Service account balances will stay the same as they were prior to the
17 reorganization, including the current ADIT balance applicable to the Natural Gas Distribution
18 Business. Therefore, there will be no increase in rate base as a result of the reorganization.

19 **Q. WILL THERE BE ANY IMPACT ON TAX REVENUES OF ANY POLITICAL**
20 **SUBDIVISION WHERE KANSAS GAS SERVICE'S KANSAS ASSETS ARE**
21 **LOCATED?**

22 A. No.

1 **III. TRANSFER OF LIABILITIES AND ASSETS RELATING TO EMPLOYEE AND**
2 **RETIREE BENEFITS AS A RESULT OF THE REORGANIZATION**

3 **Q. EXPLAIN HOW THE LIABILITIES AND ASSETS RELATING TO EMPLOYEE**
4 **AND RETIREE BENEFITS WILL BE TRANSFERRED AS A RESULT OF THE**
5 **REORGANIZATION.**

6 A. As indicated in Mr. Reiners' testimony, liabilities related to employee and retiree benefit plans
7 will be assigned based on the individual's last employment, so each individual who (i) was
8 retired from ONEOK while working in the natural gas distribution segment, (ii) is currently
9 associated with the Natural Gas Distribution Business, or (iii) will be assigned to ONE Gas
10 following the reorganization, will have his or her benefit plan liabilities assigned to ONE Gas.
11 All other personnel liabilities not meeting one of the three criteria above will remain the
12 liability of ONEOK. Assets in the benefit plans are expected to be assigned on a proportionate
13 basis with the liabilities.

14 **IV. CONFIRMATION OF KANSAS GAS SERVICE'S ONGOING COMPLIANCE WITH**
15 **EXISTING REGULATORY REQUIREMENTS; PUBLIC UTILITY OPERATIONS**
16 **AFTER THE COMPLETION OF THE REORGANIZATION PLAN; AND ONEOK'S**
17 **REQUEST FOR APPROVAL TO TRANSFER TARIFF RATES, TERMS AND**
18 **CONDITIONS, CERTIFICATES AND FRANCHISES TO ONE GAS**

19 A. CONFIRMATION OF KANSAS GAS SERVICE'S ONGOING COMPLIANCE
20 WITH EXISTING REGULATORY REQUIREMENTS

21 **Q. WILL THE REORGANIZATION HAVE ANY IMPACT ON KANSAS GAS**
22 **SERVICE'S ABILITY TO COMPLY WITH EXISTING REGULATORY**
23 **REQUIREMENTS?**

24 A. No. The reorganization will not have any impact on Kansas Gas Service's ability to comply
25 with this Commission's existing regulatory requirements.

1 B. PUBLIC UTILITY OPERATIONS AFTER THE REORGANIZATION

2 **Q. WHAT IMPACT WILL THE REORGANIZATION PLAN HAVE ON KANSAS GAS**
3 **SERVICE'S PUBLIC UTILITY BUSINESS?**

4 A. The reorganization as it relates to our Kansas customers and regulators should be seamless.
5 Upon the completion of the reorganization, Kansas Gas Service will be operated as a division
6 of ONE Gas, just as it has operated as a division of ONEOK in the past. ONE Gas will
7 continue to use the Kansas Gas Service name to provide natural gas service to its Kansas
8 customers. Kansas Gas Service will maintain its existing tariff rates and terms and conditions
9 for natural gas service on file with the Commission. Kansas Gas Service will continue to
10 provide natural gas service to its existing customers in accordance with such tariff rates and
11 terms and conditions and continue to provide safe and reliable natural gas service and facilities
12 at just and reasonable rates. Upon issuance of a final order by the Commission in this docket
13 approving the reorganization plan and completion of the reorganization, ONE Gas and Kansas
14 Gas Service will file a document with the Commission's Utilities Division to be placed with
15 the existing Kansas Gas Service tariff rates and terms and conditions of service on file with
16 the Commission, which states Kansas Gas Service, a Division of ONE Gas, hereby adopts
17 those tariff rates and terms and conditions of service. ONE Gas and Kansas Gas Service in
18 its next general rate case filing with the Commission will submit a complete set of the tariffs
19 and terms and conditions of service with ONE Gas' name instead of ONEOK's name on each
20 tariff sheet.

21 The current management and employees whose expertise and work experience are
22 primarily associated with the Natural Gas Distribution Business will be transferred to ONE

1 Gas and Kansas Gas Service and no workforce reductions are expected.

2 **Q. WILL THE REORGANIZATION HAVE ANY IMPACT ON THE UTILITY'S**
3 **OPERATION AND MAINTENANCE DIRECT CHARGED ("O&M") EXPENSES?**

4 A. No. As explained by Mr. Bridgewater, Kansas Gas Service' operations in Kansas are not
5 expected to change as a result of the reorganization. Employees, who currently provide service
6 to Kansas Gas Service's customers (and whose costs are charged to Kansas Gas Service), will
7 remain substantially unchanged as a result of the reorganization.

8 **Q. CAN YOU EXPLAIN IN MORE DETAIL THE SERVICES THAT ONE GAS WILL**
9 **BE PROVIDING TO KANSAS GAS SERVICE AFTER THE COMPLETION OF THE**
10 **REORGANIZATION PLAN?**

11 A. Yes. As under the existing corporate structure, and as previously mentioned, Kansas Gas
12 Service will operate as a separate division of ONE Gas. ONE Gas will also own and operate
13 each utility business in Oklahoma and Texas as a division. ONE Gas will provide various
14 corporate, administrative, management and support services to Kansas Gas Service and to the
15 other divisions, similar to the services Kansas Gas Service currently receives from ONEOK
16 from departments such as accounting and finance, treasury, human resources, investor
17 relations and public affairs, government relations, and information technology, among others.
18 ONE Gas will continue to provide those shared services in the manner in which they have been
19 provided by ONEOK. Support costs will be allocated pursuant to a cost allocation manual
20 virtually the same as the current cost allocation manual used by ONEOK and Kansas Gas
21 Service and on file with the Commission. Certain functions and services currently provided
22 by ONEOK to its natural gas distribution business will be provided by ONEOK for a period

1 following the completion of the reorganization plan under the Master Transition Services
2 Agreement (Exhibit 4 to the Application), but will eventually be provided by ONE Gas.

3 The methodology used to allocate corporation costs will not change. ONE Gas will
4 continue to allocate costs 1) directly, when possible, and if not 2) indirectly either a) on a
5 causal basis or b) through a Modified Distrigas methodology, which has been referred to in
6 Kansas Gas Service's previous rate cases as ONEOK Distrigas. ONE Gas, like ONEOK, will
7 specifically assign costs that can be directly charged or are directly incurred by Kansas Gas
8 Service first. Those costs that cannot be directly charged to Kansas Gas Service, but for which
9 a specific measurement can be identified will be allocated on a causal basis based on the most
10 appropriate cost driver. Lastly, ONE Gas, like ONEOK, will use a modified ONEOK
11 Distrigas methodology, which we will refer to as ONE Gas Distrigas, with some modifications
12 to account for the separation of the Natural Gas Distribution Business from ONEOK's other
13 business units, to allocate any remaining indirect corporate costs.

14 C. TRANSFER OF EXISTING KANSAS ASSETS, CERTIFICATES OF
15 CONVENIENCE AND NECESSITY, AND FRANCHISES

16 **Q. IS ONEOK REQUESTING THE COMMISSION APPROVE THE TRANSFER OF**
17 **THE EXISTING KANSAS UTILITY ASSETS, CERTIFICATES OF CONVENIENCE**
18 **AND NECESSITY, AND FRANCHISES RELATING TO THE KANSAS NATURAL**
19 **GAS UTILITY BUSINESS TO KANSAS GAS SERVICE, A DIVISION OF ONE GAS,**
20 **AS PART OF THIS APPLICATION?**

21 A. Yes. ONEOK is requesting Commission approval of the transfer of the existing Kansas utility
22 assets, certificates of convenience and necessity and franchises relating to the Kansas natural

1 gas utility business from Kansas Gas Service, a Division of ONEOK, Inc. to Kansas Gas
2 Service, a Division of ONE Gas, Inc.

3 D. COMMISSION WILL RETAIN JURISDICTION OVER ONE GAS AND KANSAS
4 GAS SERVICE

5 **Q. WILL THE COMMISSION RETAIN ITS JURISDICTION OVER THE RATES AND**
6 **SERVICES PROVIDED BY ONE GAS AND KANSAS GAS SERVICE AFTER THE**
7 **COMPLETION OF THE REORGANIZATION?**

8 A. Yes. The Commission will retain full jurisdiction over ONE Gas and Kansas Gas Service and
9 will have the capacity to effectively regulate and audit the operations of the Kansas natural gas
10 distribution business by ONE Gas and Kansas Gas Service. ONE Gas and Kansas Gas Service
11 acknowledge that the Commission has regulatory jurisdiction in setting just and reasonable
12 rates for Kansas Gas Service, which includes any recovery of the costs for services provided
13 by ONE Gas to Kansas Gas Service.

14 **V. BENEFITS OF THE REORGANIZATION FROM A REGULATORY VIEWPOINT:**
15 **STREAM-LINING AND IMPROVING REGULATORY OVERSIGHT OF THE**
16 **KANSAS NATURAL GAS UTILITY OPERATIONS**

17 **Q. ARE THERE BENEFITS THAT RESULT FROM THE REORGANIZATION FROM**
18 **A REGULATORY VIEWPOINT?**

19 A. Yes.

20 **Q. CAN YOU IDENTIFY AND EXPLAIN THOSE BENEFITS?**

21 A. Yes. The reorganization will stream-line and improve regulatory oversight of the Kansas
22 natural gas utility operations. The primary benefit of the reorganization plan from a regulatory
23 viewpoint is that the separation of the local distribution company business ("LDC business")

1 from the business conducted by ONEOK as the General Partner ("GP") for ONEOK Partners
2 ("GP business") will result in more transparency for regulators. This in turn will be beneficial
3 to the regulators and our customers. The transparency created by the reorganization plan
4 occurs because the separation of the LDC business and the GP business will avoid the
5 theoretical concerns that excessive costs will be allocated to ONEOK's regulated operations
6 to the benefit of its competitive business segments. Also, it will be easier and more efficient
7 for the Commission and its Staff to determine the proper cost of capital for a pure play LDC
8 business because the actual cost of and amount of debt of the LDC business and the actual
9 amount of common equity to determine the cost of capital for the utility in a rate case can be
10 readily identified. Utility customers benefit from the more simple and efficient regulation that
11 comes from this transparency, which arises from a less complex corporate structure.

12 The same can be said with respect to the allocation of shared costs. Since the sole
13 focus of ONE Gas will be operating the LDC business, allocation of shared costs will be more
14 transparent and should be easier to audit.

15 **VI. HOW THE PROPOSED REORGANIZATION PLAN WILL IMPACT KANSAS GAS**
16 **SERVICE'S COST OF SERVICE AFTER THE REORGANIZATION HAS BEEN**
17 **COMPLETED**

18 **Q. HOW WILL THE PROPOSED REORGANIZATION PLAN IMPACT KANSAS GAS**
19 **SERVICE'S COST OF SERVICE AFTER THE REORGANIZATION HAS BEEN**
20 **COMPLETED?**

21 **A.** ONEOK is preparing forecasted financial information of ONE Gas and Kansas Gas Service.
22 That information will be filed as a late filed exhibit (Exhibit 8) to the Application. I plan to
23 file supplemental testimony sponsoring the forecasted financial information and showing how

1 the reorganization will impact Kansas Gas Service's cost of service after the reorganization has
2 been completed.

3 **VII. RECOVERY OF COSTS RELATING TO THE REORGANIZATION PLAN**

4 **Q. ARE ONE GAS AND KANSAS GAS SERVICE PLANNING TO SEEK RECOVERY**
5 **OF THE COSTS RELATING TO THE REORGANIZATION PLAN?**

6 **A.** I will be filing supplemental testimony supporting ONE Gas' and Kansas Gas Service's plan
7 to seek recovery of the costs relating to the reorganization that are assigned to Kansas Gas
8 Service.

9 **Q. THANK YOU.**

VERIFICATION

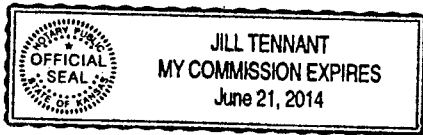
STATE OF KANSAS)
) ss:
COUNTY OF JOHNSON)

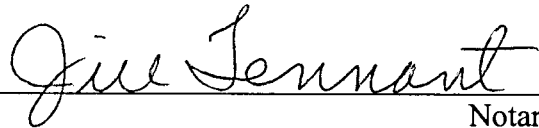
David N. Dittmore, being duly sworn upon his oath, deposes and states that he is Manager of Rates and Regulatory Affairs for Kansas Gas Service, a Division of ONEOK, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true and correct.



David N. Dittmore

SUBSCRIBED AND SWORN to before me this 16th day of August, 2013.





Notary Public

Appointment/Commission Expires: June 21, 2014