

**Testimony & Exhibits  
of  
Derek Reiners**



BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

AUG 16 2013

In the Matter of the Application of ONEOK, Inc. for )  
an Order Authorizing its Plan of Reorganization )

by  
State Corporation Commission  
of Kansas

Docket No. 14-KGSG-100-MIS

**DIRECT TESTIMONY OF DEREK S. REINERS**

1 **I. INTRODUCTION**

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

3 A. My name is Derek S. Reiners. My business address is ONEOK, Inc. ("ONEOK" or  
4 "Company"), 100 W. Fifth Street, Tulsa, Oklahoma 74103.

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

6 A. I am employed by ONEOK as its Chief Financial Officer.

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

8 A. I received a Bachelor of Science Degree in Business Administration with majors in Finance  
9 and Economics from Oklahoma State University in 1993. I received a Master of Science  
10 Degree in Accounting from Oklahoma State University in 1999. I am a Certified Public  
11 Accountant. I was previously employed in the practice of public accounting, most recently as  
12 a partner with the firm of Grant Thornton LLP, where I served clients mostly in the energy  
13 industry. I joined ONEOK in 2009 as its Chief Accounting Officer and assumed my current  
14 position in January 2013.

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

16 A. I am providing testimony in support of ONEOK'S request to the Kansas Corporation  
17 Commission ("Commission" or "KCC") for an order authorizing ONEOK to implement its

1 reorganization plan. ONEOK is proposing to restructure itself by creating two independent  
2 publicly traded companies. The new company, ONE Gas, Inc. ("ONE Gas") will be the sole  
3 owner of the existing Kansas, Oklahoma and Texas natural gas utility distribution business  
4 ("Natural Gas Distribution Business"). ONEOK will continue as a stand-alone publicly traded  
5 company consisting of the general partner and limited partner interests of ONEOK Partners,  
6 L.P. ("ONEOK Partners"). My testimony addresses the following matters with respect to  
7 ONEOK's reorganization plan:

8 (1) Provides a description of the reorganization, the current corporate structure, the  
9 corporate structure after the reorganization plan and the intermediate steps under the  
10 reorganization plan.

11 (2) Provides a description of the agreements and documents relating to the  
12 reorganization plan.

13 (3) Discusses ONE Gas' operation of the Natural Gas Distribution Business after  
14 the reorganization, including (a) the process used to assign and transfer assets and liabilities  
15 to ONE Gas; (b) the capitalization of ONE Gas' operation and financial strength of ONE Gas;  
16 (c) the relationship between ONE Gas and Kansas Gas Service with respect to shared services,  
17 allocation of corporate and shared service costs from ONE Gas to Kansas Gas Service and  
18 adoption of a cost allocation manual virtually the same as the one currently on file with the  
19 Commission; and (d) other matters relating to ONE Gas' operations, including supplemental  
20 testimony relating to the transition services that ONEOK will provide to ONE Gas following  
21 the completion of the reorganization.

22 (4) Discusses the reasons for and the benefits of the reorganization as it relates to

1 the Natural Gas Distribution Business and why Commission approval of the reorganization  
2 plan is in the public interest.

3 (5) Identifies in supplemental testimony the estimated costs of the reorganization  
4 and the estimated amount of the reorganization costs that will be assigned to Kansas Gas  
5 Service.

6 **Q. DO YOU SPONSOR ANY OF THE EXHIBITS ATTACHED TO THE**  
7 **APPLICATION?**

8 A. Yes. I am sponsoring Exhibits 1 through 7 attached to the Application. Mr. Dittmore is  
9 sponsoring Exhibit 8 (late-filed) to the Application.

10 **Q. CAN YOU IDENTIFY THE WITNESSES THAT ARE ALSO FILING DIRECT**  
11 **TESTIMONY AND EXHIBITS IN SUPPORT OF THE APPLICATION AND THE**  
12 **SUBJECT MATTER OF THEIR TESTIMONY?**

13 A. Yes. In addition to me, Ms. Caron A. Lawhorn, ONEOK's senior vice president, commercial,  
14 natural gas distribution, provides testimony with respect to the selection process for  
15 management and employees assigned to ONE Gas and Kansas Gas Service. She also testifies  
16 as to how the proposed reorganization is in the public interest and will be beneficial on an  
17 overall basis to state and local economies and to communities in the area served by the  
18 resulting public utility operations in the state.

19 Mr. Ronald D. Bridgewater, ONEOK's vice president of asset management and  
20 engineering, provides testimony on how Kansas Gas Service plans to conduct its operations  
21 in Kansas following the reorganization and Kansas Gas Service's continued commitment to  
22 provide safe and reliable service.

1 Mr. David N. Dittmore, Kansas Gas Service's manager of rates and regulatory affairs,  
2 also provides testimony in support of the Application. He testifies what impact the  
3 reorganization will have on the public utility rate base. He testifies that there will be no  
4 impact on tax revenues of any political subdivision where Kansas Gas Service's Kansas Assets  
5 are located. Mr. Dittmore also explains how the liabilities related to employee and retiree  
6 benefit plans will be assigned to ONE Gas under the reorganization. Mr. Dittmore confirms  
7 Kansas Gas Service's ongoing compliance with existing regulatory requirements, what impact  
8 the reorganization will have on Kansas Gas Service's public utility operations after the  
9 reorganization, and support for ONEOK's request for approval to transfer tariff rates, terms  
10 and conditions of service, certificates of public convenience and necessity, and franchises to  
11 ONE Gas. Mr. Dittmore also explains how the reorganization will result in stream-lining  
12 and improving regulatory oversight of the Kansas natural gas utility operations.

13 Mr. Dittmore will also provide in supplemental testimony support for Kansas Gas  
14 Service's request to recover a portion of the reorganization transaction cost, including a plan  
15 to recover those costs in rates.

16 Finally, Mr. Dittmore intends to file supplemental testimony explaining how the  
17 proposed reorganization plan will impact Kansas Gas Service's cost of service after the  
18 reorganization has been completed. ONEOK is preparing forecasted financial information for  
19 ONE Gas, and Kansas Gas Service (late-filed Exhibit 8 to the Application) and Mr. Dittmore  
20 will be sponsoring that late-filed exhibit in his supplemental testimony.

21 **II. ONEOK'S REORGANIZATION PLAN**

22 **Q. GENERALLY DESCRIBE ONEOK'S CURRENT CORPORATE STRUCTURE.**

1 A. ONEOK is a diversified energy company and successor to the company founded in 1906 as  
2 Oklahoma Natural Gas Company. The Company is a corporation incorporated under the laws  
3 of the state of Oklahoma, and our common stock is listed on the NYSE under the trading  
4 symbol "OKE." ONEOK is the sole general partner and as of June 30, 2013, owns 43.3  
5 percent of ONEOK Partners. ONEOK Partners is a leader in the gathering, processing, storage  
6 and transportation of natural gas in the United States. In addition, ONEOK Partners owns a  
7 natural gas liquids system, which connects natural gas liquids ("NGLs") supply in the  
8 Mid-Continent and Rocky Mountain regions with key market centers. ONEOK's natural gas  
9 distribution business is the largest natural gas distributor in Kansas and Oklahoma and the  
10 third largest natural gas distributor in Texas, providing service as a regulated public utility to  
11 over two million wholesale and retail customers. In June 2013, the Company announced the  
12 discontinuance of the energy services business, which provides natural gas marketing services  
13 to customers across the United States, through an accelerated wind down process, which is  
14 expected to be substantially complete by April 2014.

15 **Q. CAN YOU IDENTIFY EXHIBIT 1 ATTACHED TO THE APPLICATION?**

16 A. Exhibit 1 is a copy of ONEOK's 2012 Annual Report. The 2012 annual report contains,  
17 among other items, a description of ONEOK's business and its financial statements.

18 **Q. GENERALLY DESCRIBE ONEOK'S REORGANIZATION PLAN AND THE**  
19 **CORPORATE STRUCTURE AFTER THE COMPLETION OF THE PLAN.**

20 A. The reorganization will be accomplished by separating the Natural Gas Distribution Business  
21 from ONEOK into a stand-alone publicly traded company via a tax-free dividend of ONE Gas  
22 shares to existing ONEOK shareholders. ONE Gas will be comprised of 100% regulated

1 natural gas utilities with operations in three contiguous geographical states. ONEOK will also  
2 be a stand-alone publicly traded company consisting of general partner and limited partner  
3 interests of ONEOK Partners and the wind-down operations of ONEOK's energy services  
4 business.

5 **Q. OTHER THAN RECEIVING APPROVAL FROM THE KCC, DOES ONEOK NEED**  
6 **TO OBTAIN PRIOR APPROVAL OF THE REORGANIZATION FROM OTHER**  
7 **STATE COMMISSIONS?**

8 A. No.

9 **Q. ARE THERE OTHER CONDITIONS THAT MUST BE MET WITH RESPECT TO**  
10 **THE REORGANIZATION?**

11 A. The transaction is subject to customary conditions, including among other things, the receipt  
12 by ONEOK of a favorable private letter ruling on the tax-free nature of the transaction from  
13 the Internal Revenue Service.

14 **Q. WILL THE REORGANIZATION PLAN REQUIRE A VOTE OF ONEOK'S**  
15 **SHAREHOLDERS?**

16 A. No.

17 **Q. CAN YOU IDENTIFY EXHIBIT 2 TO THE APPLICATION?**

18 A. Yes. Exhibit 2 is ONE Gas' Form 10, General Form for Registration of Securities to be  
19 submitted to the SEC. It will be filed as a late filed exhibit to the Application once it is  
20 completed and filed with the SEC. It provides a summary of the transaction, risk factors,  
21 carve-out audited financial statements for ONE Gas, overview of the separation agreements  
22 and information on ONE Gas, its business, officers and directors. The Form 10 also includes

1 certain pro forma historical financial information of ONE Gas.

2 **Q. YOU PREVIOUSLY INDICATED THAT THERE ARE SEVERAL INTERMEDIATE**  
3 **STEPS WITH RESPECT TO THE REORGANIZATION PROCESS. CAN YOU**  
4 **DESCRIBE AND EXPLAIN EACH STEP FOR THE COMMISSION?**

5 A. Yes. The following intermediate steps with respect to the reorganization are:

6 Step 1: ONEOK forms ONE Gas, Inc. with nominal assets.

7 Step 2: ONEOK will contribute assets and liabilities of the Natural Gas Distribution  
8 Business to ONE Gas, Inc. in exchange for (1) all of the stock of ONE Gas, Inc., and (2) the  
9 use of all or a portion of the newly-issued ONE Gas, Inc. debt described in Step 3 to reduce  
10 ONEOK debt.

11 Step 3: ONE Gas, Inc. borrows approximately \$1.1 billion to \$1.2 billion. All or a  
12 portion of the ONE Gas, Inc. debt will be used to retire ONEOK debt.

13 Step 4: ONEOK distributes all of the stock of ONE Gas, Inc. to its shareholders.

14 An illustration of each intermediary step of the reorganization is set forth in Exhibit 7 to the  
15 Application.

16 **Q. HAS ONEOK'S BOARD OF DIRECTORS AUTHORIZED MANAGEMENT TO**  
17 **PURSUE THE PROPOSED REORGANIZATION PLAN?**

18 A. Yes. ONEOK's Board of Directors authorized management to pursue the proposed  
19 reorganization plan, including the filing of this Application with the Commission.

20 **Q. WHAT IS THE PROPOSED TIME FRAME IN COMPLETING THE**  
21 **REORGANIZATION PLAN?**

22 A. The reorganization is expected to take effect during the first quarter 2014.



1 **III. IDENTIFICATION AND DESCRIPTION OF THE REORGANIZATION PLAN'S**  
2 **AGREEMENTS AND DOCUMENTS**

3 **Q. IDENTIFY THE AGREEMENTS AND OTHER DOCUMENTS THAT ARE PART OF**  
4 **ONEOK'S REORGANIZATION PLAN.**

5 A. The following agreements and documents are part of ONEOK's reorganization plan:

6 (1) Separation and Distribution Agreement.

7 (2) Master Transition Services Agreement.

8 (3) Tax Matters Agreement.

9 (4) Employee Matters Agreement.

10 (5) SEC Form 10 General Form for Registration of Securities.

11 **Q. CAN YOU IDENTIFY EXHIBIT 3 ATTACHED TO THE APPLICATION?**

12 A. Yes. Exhibit 3 is a form of the Separation and Distribution Agreement relating to ONEOK's  
13 reorganization plan.

14 **Q. GENERALLY DESCRIBE THE PURPOSE AND CONTENTS OF THE SEPARATION**  
15 **AND DISTRIBUTION AGREEMENT.**

16 A. This agreement is the primary transaction document. It describes the actions to be taken prior  
17 to the separation and certain agreements among the parties following the separation. It  
18 provides for, among other things, (i) the transfer of the assets and liabilities of the Natural Gas  
19 Distribution Business to ONE Gas; (ii) indemnifies ONE Gas from liabilities retained by  
20 ONEOK; and (iii) indemnifies ONEOK from liabilities transferred to ONE Gas.

21 **Q. CAN YOU IDENTIFY EXHIBIT 4 ATTACHED TO THE APPLICATION?**

22 A. Yes. Exhibit 4 is a form of the Master Transition Services Agreement relating to ONEOK's

1 reorganization plan.

2 **Q. GENERALLY DESCRIBE THE PURPOSE AND CONTENTS OF THE MASTER**  
3 **TRANSITION SERVICES AGREEMENT.**

4 A. This agreement provides for certain shared services after the separation date so that ONEOK  
5 and ONE Gas can each operate as independent public companies (e.g, legal, payroll,  
6 accounting, marketing, benefit plan administration, information technology, etc.). All services  
7 provided by ONEOK to ONE Gas will be charged based upon ONEOK's actual cost incurred  
8 in providing the services. In addition, the agreement provides ONE Gas with the flexibility  
9 it will need to determine when such services are no longer necessary and can be performed by  
10 ONE Gas. With the announcement of the reorganization in late July, ONEOK began  
11 developing the schedules that will be attached to the agreement. The schedules to the Master  
12 Transition Services Agreement, which will contain the specific services and cost for those  
13 services, will be late-filed with the Commission as soon as they are completed by ONEOK.

14 **Q. WILL THE SERVICES PROVIDED BY ONEOK TO ONE GAS UNDER THE**  
15 **MASTER TRANSITION SERVICES AGREEMENT EVENTUALLY BE DONE BY**  
16 **ONE GAS ON ITS OWN?**

17 A. Yes. As I indicated, as ONE Gas determines it no longer needs each contracted service from  
18 ONEOK, the agreement provides ONE Gas with the flexibility to cancel that contracted  
19 service.

20 **Q. CAN YOU IDENTIFY EXHIBIT 5 ATTACHED TO THE APPLICATION?**

21 A. Yes. Exhibit 5 is a form of the Tax Matters Agreement relating to ONEOK's reorganization  
22 plan.

1 **Q. GENERALLY DESCRIBE THE PURPOSE AND CONTENTS OF THE TAX**  
2 **MATTERS AGREEMENT.**

3 A. This agreement governs the parties' respective rights, responsibilities and obligations after the  
4 separation with respect to taxes.

5 **Q. CAN YOU IDENTIFY EXHIBIT 6 ATTACHED TO THE APPLICATION?**

6 A. Yes. Exhibit 6 is a form of the Employee Matters Agreement relating to ONEOK's  
7 reorganization plan.

8 **Q. GENERALLY DESCRIBE THE PURPOSE AND CONTENTS OF THE EMPLOYEE**  
9 **MATTERS AGREEMENT.**

10 A. This agreement provides for the transfer of Natural Gas Distribution employees to ONE Gas,  
11 splitting and assumption of benefits plans, employee equity awards, and other compensation  
12 matters.

13 **IV. PUBLIC UTILITY OPERATIONS AFTER THE COMPLETION OF THE**  
14 **REORGANIZATION PLAN**

15 **Q. UPON APPROVAL OF THIS APPLICATION AND COMPLETION OF THE**  
16 **PROPOSED REORGANIZATION PLAN HOW WILL ONE GAS AND KANSAS GAS**  
17 **SERVICE OPERATE THE KANSAS PUBLIC UTILITY?**

18 A. ONEOK and ONE Gas expect a seamless transition with no reduction in the level of safe and  
19 reliable service provided to customers. Kansas Gas Service will be operated as a division of  
20 ONE Gas, and will continue to provide natural gas service to the existing customers in  
21 accordance with currently approved tariff rates, and terms and conditions of service. Kansas  
22 Gas Service will continue to furnish safe and reliable service and facilities at just and

1 reasonable rates. It is expected that the current management and employees whose expertise  
2 and work experience are primarily associated with the Natural Gas Distribution Business and  
3 the Kansas Assets will be transferred to ONE Gas and Kansas Gas Service and no workforce  
4 reductions are contemplated. Ms. Lawhorn in her testimony explains the process used by  
5 ONEOK to select which management and employees are to be assigned and transferred to  
6 ONE Gas.

7 **Q. WHAT PROCESS WAS USED BY ONEOK TO ASSIGN ASSETS AND LIABILITIES**  
8 **TO ONE GAS?**

9 A. Assets and liabilities directly attributable to the Natural Gas Distribution Business, whether  
10 known or contingent, will be allocated to ONE Gas. As indicated by Mr. Dittmore in his  
11 testimony, the assets of the Natural Gas Distribution Business are being transferred to ONE  
12 Gas at their net book value (approximately \$2.8 billion) so there is no write-up of the utility  
13 rate base as a result of the reorganization. As also indicated by Mr. Dittmore, the carrying  
14 values for all Kansas Gas Service accounts will stay the same as they were prior to the  
15 reorganization. Also, liabilities related to employee and retiree benefit plans will be assigned  
16 based on the individual's last employment, so each individual who (i) retired from ONEOK  
17 while working in the natural gas distribution segment; (ii) is currently associated with the  
18 Natural Gas Distribution Business; or (iii) is assigned to ONE Gas following the  
19 reorganization, will have his or her benefit plan liabilities assigned to ONE Gas. All other  
20 personnel liabilities not meeting one of the three criteria above will remain the liability of  
21 ONEOK. Assets in the benefit plans will be allocated on a proportionate basis with the  
22 liabilities.

1 **Q. DESCRIBE THE FINANCIAL CONDITION OF ONE GAS AFTER THE**  
2 **COMPLETION OF THE REORGANIZATION PLAN INCLUDING ONE GAS'**  
3 **PROPOSED CAPITAL STRUCTURE, TARGETED DEBT RANGE, EXPECTED**  
4 **CREDIT RATING AND EXPECTED COST OF DEBT.**

5 A. ONE Gas is expected to have higher credit ratings from Moody's Investor Service and  
6 Standard and Poor's Ratings Services than ONEOK's current ratings. ONE Gas is expected  
7 to have between \$1.1 billion and \$1.2 billion of long-term senior unsecured notes, and short  
8 term debt associated with financing natural gas held in storage. ONE Gas is expected to have  
9 a long-term debt-to-capitalization ratio of 40% to 45%. It is anticipated that ONE Gas will  
10 have a lower weighted average cost of debt than ONEOK. Assuming a 100 basis point  
11 improvement in ONE Gas' weighted average cost of debt compared with ONEOK, ONE Gas  
12 would save \$12 million in annual interest expense assuming \$1.2 billion of ONE Gas debt, of  
13 which approximately 36% would be attributable to Kansas Gas Service.

14 **Q. WILL THERE BE CHANGES IN THE COSTS AT THE ONE GAS CORPORATE**  
15 **LEVEL, WHICH ARE CURRENTLY REFLECTED IN KANSAS GAS SERVICE'S**  
16 **RATES, DUE TO THE REORGANIZATION?**

17 A. There will be changes in the costs at the ONE Gas corporate level, which are currently  
18 reflected in Kansas Gas Service's rates. ONEOK is preparing forecasted financial information  
19 for ONE Gas, Inc. and Kansas Gas Service (late-filed Exhibit 8 to the Application) and Mr.  
20 Dittmore will be sponsoring that late-filed exhibit in his supplemental testimony. Mr.  
21 Dittmore's supplemental testimony will explain how the reorganization will impact Kansas  
22 Gas Service's cost of service after the reorganization has been completed.

1 **Q. DESCRIBE THE RELATIONSHIP BETWEEN ONE GAS AND KANSAS GAS**  
2 **SERVICE AFTER THE COMPLETION OF THE REORGANIZATION PLAN**  
3 **INCLUDING WHAT SERVICES ONE GAS WILL BE PROVIDING TO KANSAS**  
4 **GAS SERVICE AND HOW THE COST OF THOSE SERVICES WILL BE**  
5 **ALLOCATED TO KANSAS GAS SERVICE.**

6 A. Kansas Gas Service will operate as a separate division of ONE Gas. ONE Gas will also own  
7 and operate each utility business in Oklahoma and Texas as divisions. ONE Gas will provide  
8 various corporate, administrative, management and support services to Kansas Gas Service  
9 and the other two divisions. The costs related to the services provided by ONE Gas will be  
10 allocated pursuant to a cost allocation manual virtually the same as the current cost allocation  
11 manual on file with the Commission that is used by ONEOK to allocate costs. Mr. Dittmore's  
12 testimony provides more detail with respect to how costs will be allocated by ONE Gas to the  
13 three divisions.

14 **V. REASONS FOR AND BENEFITS OF THE REORGANIZATION PLAN AS IT**  
15 **RELATES TO THE NATURAL GAS DISTRIBUTION BUSINESS AND WHY**  
16 **AUTHORIZATION OF THE REORGANIZATION PLAN IS IN THE PUBLIC**  
17 **INTEREST**

18 **Q. WHY HAS ONEOK DECIDED TO RESTRUCTURE ITS BUSINESS INTO TWO**  
19 **SEPARATE AND INDEPENDENT PUBLICLY TRADED COMPANIES?**

20 A. ONEOK's intent is to create two well-capitalized entities that are able to pursue more tailored  
21 strategies and more efficient capital allocation.

22 **Q. WHAT ARE THE BENEFITS OF THE RESTRUCTURING AS IT PERTAINS TO**  
23 **THE NEW UTILITY, ITS CUSTOMERS, EMPLOYEES, SHAREHOLDERS AND**

1           **REGULATORS?**

2 A.       The reasons for and benefits of the reorganization as it relates to the public utility and its  
3 stakeholders are as follows:

4           (1)     The reorganization allows the public utility to capitalize its business with  
5 historically low debt cost.

6           (2)     The reorganization insulates the public utility operations from the risks relating  
7 to the operation of ONEOK's non-utility business and, following the reorganization, the public  
8 utility's exposure to legal liabilities arising from operations will be limited to those created by  
9 the utility operations.

10          (3)     The reorganization streamlines regulatory oversight of the public utility  
11 operations.

12          (4)     The reorganization separates businesses with markedly different business  
13 models and customers, thus allowing ONE Gas, Inc. to focus solely on the Natural Gas  
14 Distribution Business.

15          (5)     The reorganization enables a more focused investor base for the public utility.

16          (6)     The reorganization focuses capital allocation decisions and resolves the  
17 potential for competition for capital between non regulated and regulated businesses, thereby  
18 enhancing value proposition for the public utility.

19 **Q.       CAN YOU EXPLAIN HOW THE REORGANIZATION WILL ALLOW THE PUBLIC**  
20 **UTILITY TO CAPITALIZE ITS BUSINESS WITH HISTORICALLY LOW DEBT**  
21 **COST AND HOW THAT BENEFITS THE PUBLIC UTILITY AND ITS**  
22 **CUSTOMERS?**

1 A. Yes. The reorganization provides the public utility a unique opportunity to capitalize its  
2 business at a time when debt costs are historically low. As I previously mentioned, ONE Gas  
3 is expected to have higher investment grade credit ratings from Moody's Investor Service and  
4 Standard and Poor's Ratings Services than ONEOK's current ratings. ONE Gas is expected  
5 to have between \$1.1 billion and \$1.2 billion of long-term unsecured notes and have a  
6 long-term debt-to-capitalization ratio between 40% and 45%. ONEOK expects ONE Gas to  
7 have a lower weighted average cost of debt than ONEOK's cost of debt. As indicated in my  
8 earlier testimony, assuming a 100 basis point improvement in ONE Gas' weighted average cost  
9 of debt compared with ONEOK, ONE Gas would save \$12 million in annual interest expense  
10 assuming \$1.2 billion of ONE Gas debt, of which approximately 36% would be attributable  
11 to Kansas Gas Service. The public utility and customers clearly benefit from having an owner  
12 with a strong financial position and a low cost of debt.

13 **Q. CAN YOU EXPLAIN HOW THE REORGANIZATION INSULATES THE PUBLIC**  
14 **UTILITY OPERATIONS FROM THE RISKS RELATING TO ONEOK'S**  
15 **NON-UTILITY OPERATIONS, LIMITS THE PUBLIC UTILITY'S EXPOSURE TO**  
16 **LEGAL LIABILITIES ARISING FROM OPERATIONS TO THOSE CREATED BY**  
17 **THE UTILITY BUSINESS, AND HOW SUCH BENEFITS THE PUBLIC UTILITY**  
18 **AND ITS CUSTOMERS?**

19 A. Yes. Under the Separation and Distribution Agreement, ONE Gas will only assume and  
20 become responsible for (i) those known or contingent liabilities relating to the Natural Gas  
21 Distribution Business; and (ii) an allocated percentage of those liabilities of ONEOK, if any,  
22 (of which none are known at this time) arising prior to the reorganization, which are not



1 primarily related to either the Natural Gas Distribution Business, or any of ONEOK's retained  
2 businesses. The agreement also calls for ONEOK to indemnify ONE Gas from liabilities  
3 retained by ONEOK. After the reorganization, the public utility's exposure to legal liabilities  
4 arising from operations will be limited to those created by the utility. The public utility will  
5 not be exposed to legal liabilities arising from operations of ONEOK's non-utility businesses.  
6 The insulation of the public utility operations from non-utility businesses benefits the utility  
7 and its customers for many of the reasons set forth by the KCC Staff in its Report and  
8 Recommendation filed in Docket No. 06-GIMX-181-GIV on January 13, 2006. Since ONE  
9 Gas will be solely in the natural gas distribution business, it will be protected from any  
10 financial stress as a result of any poor performance by non-utility business, similar to what this  
11 Commission saw about a decade ago with two of its regulated utilities, which had experienced  
12 significant financial distress caused largely by non-utility investments and activities. In  
13 addition, any theoretical potential for cross-subsidization between the public utility business  
14 and the non-utility business is eliminated, which is also beneficial to the utility's customers.

15 **Q. CAN YOU EXPLAIN HOW THE RESTRUCTURING WILL STREAMLINE AND**  
16 **IMPROVE REGULATORY OVERSIGHT OF THE PUBLIC UTILITY AND HOW**  
17 **THAT BENEFITS THE PUBLIC UTILITY AND ITS CUSTOMERS?**

18 A. Mr. Dittmore in his pre-filed direct testimony addresses this question in detail and provides  
19 examples of how the restructuring will better streamline and improve regulatory oversight of  
20 the public utility.

21 **Q. CAN YOU EXPLAIN HOW THE REORGANIZATION SEPARATES BUSINESSES**  
22 **WITH MARKEDLY DIFFERENT BUSINESS MODELS AND CUSTOMERS, THUS**

1           **ALLOWING ONE GAS TO FOCUS SOLELY ON THE NATURAL GAS**  
2           **DISTRIBUTION BUSINESS AND HOW THAT WILL BENEFIT THE PUBLIC**  
3           **UTILITY AND ITS CUSTOMERS?**

4 A.       Yes. In order to answer this question it is important to point out how the businesses are  
5           markedly different and have different business models and customers. ONEOK, after the  
6           reorganization, will primarily be a holding company with significant ownership in ONEOK  
7           Partners, while ONE Gas will be a local natural gas distribution company. In today's market,  
8           these two businesses face vastly different opportunities and challenges. As an example,  
9           ONEOK, through ONEOK Partners, must focus on the enormous opportunities and challenges  
10          related to the rise in shale gas production. However, ONE Gas' opportunities and challenges  
11          will be driven by its ability to operate more efficiently, while maintaining its standing as a safe  
12          and reliable provider of natural gas distribution service to the communities it serves. The  
13          business models of ONEOK and ONE Gas have different focus areas.

14                 ONEOK and ONE Gas also have different customer bases. ONEOK's business, after  
15                 the reorganization through ONEOK Partners, will primarily consist of providing services to  
16                 major and independent oil and gas production companies, natural gas gathering and processing  
17                 companies, propane distributors, ethanol producers, petrochemical companies, refining and  
18                 natural gas liquids marketing companies, natural gas distribution companies, and  
19                 electric-generation companies. ONE Gas, on the other hand, will be solely focused on  
20                 delivering natural gas to residential, small commercial, and industrial customers.

21                 Separating the Natural Gas Distribution Business will allow the public utility to  
22                 sharpen management focus on the distinct customer base and strategic goals of the public

1 utility business. The public utility and its customers will benefit because the utility's  
2 management team will be focused exclusively on the unique challenges, opportunities and  
3 strategic goals presented by its distinct business model and customers.

4 **Q. CAN YOU EXPLAIN HOW THE REORGANIZATION ENABLES A MORE**  
5 **FOCUSED INVESTOR BASE FOR THE PUBLIC UTILITY AND HOW THAT WILL**  
6 **BENEFIT THE PUBLIC UTILITY, IT'S CUSTOMERS AND ITS SHAREHOLDERS?**

7 A. Yes. ONEOK and ONE Gas have meaningfully different growth profiles and cash flow  
8 characteristics, which by their nature will likely attract different investor bases over time.  
9 Post-reorganization, ONE Gas could potentially attract new investors that currently own shares  
10 in the peers of ONE Gas. ONE Gas' peers have a significantly larger percentage of retail  
11 investors than ONEOK's peers. Based upon ONE Gas' peer group, utility investors will most  
12 likely be more focused on ONE Gas than ONEOK today or ONEOK after the reorganization.  
13 These investor classes are more likely to invest in a separate company like ONE Gas given its  
14 expected stable business profile and status as a regulated utility.

15 The reorganization will be beneficial to the public utility's shareholders because it will  
16 clarify the asset portfolio and business strategy of each business, and therefore, enable the  
17 public utility investors to select and invest in a company that is more tailored to their desired  
18 investment thesis. In addition, as I mention below, the more focused investor base will assist  
19 the public utility in raising capital so it can maintain safe and reliable distribution systems for  
20 its customers.

21 **Q. CAN YOU EXPLAIN HOW THE REORGANIZATION FOCUSES CAPITAL**  
22 **ALLOCATION DECISIONS AND RESOLVES THE POTENTIAL FOR**

1           **COMPETITION FOR CAPITAL BETWEEN NON-REGULATED AND REGULATED**  
2           **BUSINESSES, AND HOW THAT BENEFITS THE PUBLIC UTILITY AND ITS**  
3           **CUSTOMERS?**

4 A.       Yes. A public utility and its customers clearly benefit if the public utility has sufficient access  
5       to capital. The public utility business must be able to fund significant capital expenditures that  
6       are necessary for it to maintain safe and reliable service. Separation of the public utility as a  
7       result of the reorganization will eliminate future competition for capital between the public  
8       utility and ONEOK's non-regulated businesses. In addition, as I previously mentioned, the  
9       investor profiles of ONEOK's non-regulated businesses and its natural gas distribution  
10       business are different. The natural gas distribution business is capital intensive and must have  
11       access to capital markets to raise the funds necessary to meet its obligation to maintain its  
12       distribution system to assure safe and reliable service. Having an investor base focused on  
13       those capital needs should allow ONE Gas to access debt and equity capital markets to  
14       efficiently fund its necessary capital expenditures.

15 **Q.       IN YOUR OPINION WILL THE PROPOSED REORGANIZATION PROMOTE THE**  
16 **PUBLIC INTEREST?**

17 A.       Yes.

18 **Q.       WHY WILL THE PROPOSED REORGANIZATION PROMOTE THE PUBLIC**  
19 **INTEREST?**

20 A.       The proposed reorganization will promote the public interest for a number of reasons. The  
21       reorganization will be seamless to customers and regulators since the rates and services  
22       provided to utility customers will remain the same. The proposed reorganization will not have

1 any negative impact on Kansas Gas Service's operations. The Commission will retain its  
2 jurisdiction over Kansas Gas Service's operations and regulation of the gas utility will be  
3 streamlined and improved as a result of the reorganization for the reasons stated in Mr.  
4 Dittmore's testimony. The reorganization will result in strengthening the financial condition  
5 of ONE Gas, the owner and operator of Kansas Gas Service's operations. The management  
6 and employees of ONE Gas are qualified by their experience to meet all of the demands  
7 associated with operating the Kansas natural gas public utility and will work to maintain the  
8 existing high quality of service provided to Kansas customers. All of ONE Gas' stakeholders,  
9 customers, employees, shareholders, and regulators, will benefit from the reorganization.

10 **VI. COST OF THE REORGANIZATION**

11 **Q. WHAT IS THE ESTIMATED AMOUNT OF THE COSTS OF THE**  
12 **REORGANIZATION AND HOW MUCH OF THOSE COSTS WILL BE**  
13 **ALLOCATED TO KANSAS GAS SERVICE?**

14 **A.** I will address the costs of the reorganization and how much of those costs will be allocated to  
15 Kansas Gas Service in my supplemental testimony.

16 **Q. DOES ONEOK EXPECT KANSAS GAS SERVICE TO SEEK RECOVERY OF THE**  
17 **COSTS OF THE REORGANIZATION IN RATES?**

18 **A.** Mr. Dittmore will be addressing that issue in his supplemental testimony.

19 **VI. CONCLUSION**

20 **Q. CAN YOU SUMMARIZE FOR THE COMMISSION WHAT ONEOK IS**  
21 **REQUESTING IN THIS MATTER?**

22 **A.** Yes. ONEOK is asking the Commission for an Order that provides for the following:

1           (1)     authorizes, consents to and approves ONEOK's reorganization plan as  
2 described in our Application and testimony;

3           (2)     authorizes, consents to and approves the transfer of public utility assets,  
4 certificates of convenience and necessity, franchises, permits, rate tariffs and terms and  
5 conditions of service relating to ONEOK's natural gas utility plant and facilities from Kansas  
6 Gas Service, a Division of ONEOK, Inc. to Kansas Gas Service, a Division of ONE Gas, Inc.,  
7 and, effective upon the completion of the reorganization, authorizes ONEOK to discontinue  
8 all gas service now furnished by it through its division Kansas Gas Service;

9           (3)     authorizes Kansas Gas Service, a Division of ONE Gas, Inc., to adopt as its rate  
10 tariffs, terms and conditions of service for gas service in the areas now served by Kansas Gas  
11 Service, a Division of ONEOK, the rates, terms and conditions of service of Kansas Gas  
12 Service, a Division of ONEOK, which may be changed from time to time with the approval  
13 of the Commission, including the existing Cost of Gas Rider ("COGR") tariff, Weather  
14 Normalization Adjustment ("WNA") tariff, ad valorem tax surcharge ("AVTS") tariff, Gas  
15 System Reliability Surcharge ("GSRs") tariff, and remaining under-recovered or  
16 over-recovered balances relating to those tariffs, if any, and to adopt all existing accounting  
17 orders and depreciation rates for all accounts;

18           (4)     authorizes Kansas Gas Service, a Division of ONE Gas, Inc., the right to seek  
19 recovery of the costs of the reorganization plan that may be assigned to Kansas Gas Service  
20 pursuant to the plan sponsored by Mr. Dittmore in his supplemental testimony;

21           (5)     finds that the requested relief will promote the public interest; and

22           (6)     grants such other relief deemed by the Commission to be just and proper to

1           accomplish the purpose of this Application and to complete the reorganization described  
2           herein.  
3 **Q.    THANK YOU.**

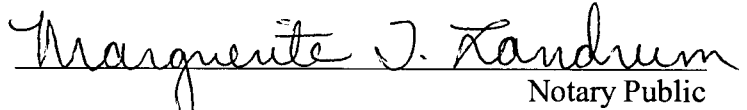
VERIFICATION

STATE OF OKLAHOMA    )  
  ) ss:  
COUNTY OF TULSA     )

Derek S. Reiners, being duly sworn upon his oath, deposes and states that he is Chief Financial Officer for 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.

  
\_\_\_\_\_  
Derek S. Reiners

SUBSCRIBED AND SWORN to before me this 13<sup>th</sup> day of August, 2013.

  
\_\_\_\_\_  
Notary Public

Appointment/Commission Expires: 2-14-2014

