

Received  
on

MAR 28 2012

by  
State Corporation Commission  
of Kansas

In the Matter of the Application )  
of Kansas Gas Service, A )  
Division of ONEOK, Inc. for the ) DOCKET NO. 12-KGSG-721-TAR  
Approval Of An Infrastructure )  
Replacement Program )  
Surcharge )

**DIRECT TESTIMONY  
OF  
DAVID N. DITTEMORE  
ON BEHALF OF  
KANSAS GAS SERVICE  
A DIVISION OF ONEOK, INC**

**DIRECT TESTIMONY**  
**OF**  
**DAVID N. DITTEMORE**  
**KANSAS GAS SERVICE**  
**DOCKET NO. 12-KGSG-\_\_\_-TAR**

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

2       **A.** My name is David N. Dittemore. My business address is 7421 West 129<sup>th</sup>  
3       Street, Overland Park, Kansas, 66213.

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

5       **A.** I am employed by Kansas Gas Service (KGS or Company) a Division of  
6       ONEOK. I am the Manager of Rates and Regulatory Affairs.

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

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

1 clients dealing with telecommunications, electric and natural gas  
2 regulatory issues.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 **A.** Yes. I have testified before the Commission on a number of occasions.

5 **Q. PLEASE IDENTIFY THE PURPOSE OF YOUR TESTIMONY.**

6 **A.** The purpose of my testimony is to describe and support the adoption of  
7 the Infrastructure Replacement Program Surcharge (IRP) recovery  
8 mechanism. In addition, I have calculated the initial surcharge to be  
9 collected in the first year of the program. I am also sponsoring exhibits  
10 that support the initial surcharge calculation and provide an example of the  
11 reconciliation mechanism. Finally, I am sponsoring the tariff under which  
12 the IRP Surcharge will be collected.

13 **Q. PLEASE PROVIDE AN OVERVIEW OF THE INFRASTRUCTURE  
14 REPLACEMENT PROGRAM AND THE ASSOCIATED COST  
15 RECOVERY MECHANISM.**

16 **A.** The IRP is discussed in detail in the testimony of Mr. Ron Bridgewater.  
17 The proposal is a commitment by Kansas Gas Service to replace all cast  
18 iron mains in its service territory within eight years of implementation of  
19 the program. In addition, there will be approximately forty miles of  
20 unprotected bare steel main that would be replaced in conjunction with the  
21 cast iron projects as well as certain tie-overs. The estimated cost of the  
22 program is approximately \$70.2 Million as set forth in Exhibit RDB-1. This  
23 represents a significant commitment of capital by Kansas Gas Service.

1

2 The carrying charges associated with this investment are proposed to be  
3 recovered through a specific cost tracker mechanism and incorporated  
4 into the Customer Charge.

5 **Q. CAN YOU PROVIDE THE RATIONALE FOR THE INFRASTRUCTURE**  
6 **REPLACEMENT PROGRAM AND THE ASSOCIATED COST**  
7 **RECOVERY MECHANISM?**

8 **A. Yes.** The level of investment outlined by Mr. Bridgewater represents a  
9 significant increase to KGS beyond its normal capital expenditures.  
10 Further, the expenditures will not generate any incremental base rate  
11 revenue since the IRP investment is not required to serve additional  
12 system load or customer growth. The proposed surcharge mechanism will  
13 allow KGS to earn a return (including Income Taxes) and recover its  
14 incremental depreciation expense simultaneous with its investment. The  
15 surcharge request eliminates the lag between when an investment is  
16 made and when its associated costs are recovered in base rates that  
17 accompanies most utility investment.

18 **Q. PLEASE PROVIDE AN OVERVIEW OF THE IRP SURCHARGE.**

19 **A.** On or before May 1 of each year, KGS will submit a budget of its cast iron  
20 replacement costs for the subsequent twelve month period July through  
21 June (Budget Period). This application contains this initial budget of cast  
22 iron replacement costs. The surcharge will recover the depreciation  
23 expense and return on cast iron expenditures as follows:

1

2        Depreciation - Monthly Depreciation expense will be computed assuming  
3            ratable monthly expenditures of the annual capital budget, multiplied by  
4            the KCC approved depreciation rate for Mains. The monthly depreciation  
5            expense for the initial application is totaled over the budget period to  
6            determine the total Depreciation Expense component of the surcharge.  
7            For subsequent applications, Depreciation Expense will be computed on  
8            the cumulative actual cast iron expenditures incurred after July 1, 2012  
9            plus the Depreciation Expense applied to budgeted expenditures.

10

11        Return – The monthly return in the initial surcharge is computed assuming  
12            ratable monthly expenditures of the annual budgeted capital expenditures,  
13            less the sum of Accumulated Depreciation as described above, and less  
14            Accumulated Deferred Income Tax Liability. The net of these three  
15            amounts is multiplied by the most recent overall Rate of Return approved  
16            by the KCC in a KGS base rate case, grossed up for income tax expense  
17            associated with the KCC approved Return on Equity. Thus, the return  
18            component includes the recovery of income tax expense. The monthly  
19            return for the Budget Period will be summed to determine the total Return  
20            component of the surcharge.

21

22        For all Applications submitted after the initial application, the Depreciation  
23        Expense and Return shall also be computed monthly based upon the

1 actual cast iron expenditures. The Depreciation Expense and Return  
2 calculated on the budgeted expenditures plus the Depreciation Expense  
3 and Return computed on the actual expenditures shall be summed to  
4 determine the Total Carrying Charges to be recovered over the following  
5 twelve month period after the Initial Application.

6 **Q. WILL THERE BE A RECONCILIATION PROCESS ASSOCIATED WITH**  
7 **THE SURCHARGE?**

8 **A.** Yes. After the initial IRP filing, each subsequent filing shall contain a true-  
9 up calculation identifying the Actual Carrying Charges calculated on the  
10 actual monthly cast iron capital expenditures. This total will be known as  
11 the Actual IRP Revenue and will include estimated recoveries through  
12 June of each year, prior to the beginning of the budget period. KGS shall  
13 provide the Actual IRP Revenue collected in its annual application to be  
14 filed by May 1 of each year and compare that amount to the Actual  
15 Carrying Charges. The difference between the Actual Carrying Charges  
16 and Actual IRP Revenue, will be appropriately added to, or subtracted  
17 from, that years' Infrastructure Surcharge calculation. Total Actual  
18 Carrying Charges and Actual IRP Revenue amounts will be maintained by  
19 KGS over the period of the IRP in order to assure that balances of these  
20 two accounts are reconciled each year. The reconciliation process will  
21 compare two variations; actual carrying charges compared with budgeted  
22 carrying charges and authorized surcharge collections compared with  
23 actual surcharge collections. This mechanism assures that only those

1 actual carrying charges will be collected from ratepayers over the course  
2 of the IRP.

3 **Q. COULD YOU PLEASE EXPLAIN HOW KGS WILL ENSURE THAT**  
4 **THERE IS APPROPRIATE DESIGNATION OF IRP ELIGIBLE**  
5 **EXPENDITURES WITH THOSE ELIGIBLE FOR GSRS?**

6 **A.** Yes. The cast iron investments will have a special designation within the  
7 Property Accounting system that indicates the project is a cast iron  
8 replacement and thus eligible for the IRP mechanism. There will be some  
9 bare steel service lines that will be replaced in conjunction with the Cast  
10 Iron replacement program, but these investments will be recovered  
11 through the GSRS mechanism.

12 **Q. PLEASE DISCUSS THE CALCULATION OF THE INITIAL IRP**  
13 **SURCHARGE.**

14 **A.** Exhibit DND-1 sets forth the calculation of the IRP Surcharge during the  
15 initial period. As shown on this Exhibit, the total Depreciation Expense for  
16 the budget period is \$132,234, while the return component including  
17 Income Taxes is \$336,775, resulting in total carrying charges of \$469,009.

18 **Q. HOW DOES KGS PROPOSE TO SPREAD THESE CHARGES AMONG**  
19 **THE VARIOUS RATE SCHEDULES?**

20 **A.** I recommend that the carrying charges be recovered from ratepayers  
21 based upon the ratio of the assignment of KGS' revenue requirement  
22 assigned to classes in its last rate case proceeding, Docket No. 06-KGSG-

1 1209-RTS. This method is the same as is used to allocate GSRS costs to  
2 customer classes and is shown in Exhibit DND-2.

3 **Q. WHAT IS THE INITIAL MONTHLY CHARGE TO BE RECOVERED**  
4 **FROM RESIDENTIAL RATEPAYERS DURING THE FIRST YEAR OF**  
5 **THE PROGRAM?**

6 **A.** The initial monthly charge to Residential ratepayers is \$.05. The proposed  
7 charge to General Sales Service customers is \$.12/month.

8 **Q. IS IT KGS' INTENT TO SUBMIT A BASE RATE INCREASE**  
9 **APPLICATION BEFORE THE KCC IN THE NEAR FUTURE?**

10 **A.** Yes.

11 **Q. WILL THE COSTS OF THE INFRASTRUCTURE REPLACEMENT**  
12 **PROGRAM BE INCORPORATED INTO KGS' BASE RATE REQUEST?**

13 **A.** No. KGS will not request recovery of these program costs because they  
14 will not be initiated until receipt of a KCC order approving the program.

15 **Q. ARE YOU SPONSORING A TARIFF ASSOCIATED WITH THE IRP**  
16 **PROGRAM?**

17 **A.** Yes. Exhibit DND-3 is the Tariff supporting the IRP Surcharge. This tariff  
18 sets forth the cost recovery mechanism as described in my testimony.

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

20 **A.** Yes.



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 to the best of his knowledge, information, and belief.

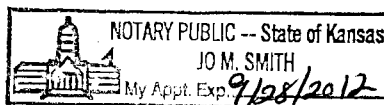
*David N. Dittmore*  
DAVID N. DITTEMORE

Subscribed and sworn to before me this 28<sup>th</sup> day of March, 2012.

*Jo M. Smith*  
NOTARY PUBLIC

My Appointment Expires:

9/28/2012



**Infrastructure Replacement Program  
Carrying Charge Calculation**

**Exhibit DND-1**

Budget Period	Budgeted Capital Expenditures	Cumulative Capital Expenditures	Depreciation Expense	Accumulated Depreciation	Cumulative Accumulated Deferred Income Taxes	Net Plant	Return	Total Budgeted Carrying Charges
2012 July	\$ 729,167	\$ 729,167	\$ 1,695	\$ 1,695	\$ 284,027	\$ 443,444	\$ 4,379	\$ 6,074
August	\$ 729,167	\$ 1,458,333	\$ 3,391	\$ 5,086	\$ 568,054	\$ 885,193	\$ 8,741	\$ 12,132
September	\$ 729,167	\$ 2,187,500	\$ 5,086	\$ 10,172	\$ 852,082	\$ 1,325,247	\$ 13,087	\$ 18,173
October	\$ 729,167	\$ 2,916,667	\$ 6,781	\$ 16,953	\$ 1,136,109	\$ 1,763,605	\$ 17,416	\$ 24,197
November	\$ 729,167	\$ 3,645,833	\$ 8,477	\$ 25,430	\$ 1,420,136	\$ 2,200,268	\$ 21,728	\$ 30,204
December	\$ 729,167	\$ 4,375,000	\$ 10,172	\$ 35,602	\$ 1,704,163	\$ 2,635,235	\$ 26,023	\$ 36,195
2013 January	\$ 729,167	\$ 5,104,167	\$ 11,867	\$ 47,469	\$ 1,988,190	\$ 3,068,508	\$ 30,302	\$ 42,169
February	\$ 729,167	\$ 5,833,333	\$ 13,563	\$ 61,031	\$ 2,272,218	\$ 3,500,085	\$ 34,563	\$ 48,126
March	\$ 729,167	\$ 6,562,500	\$ 15,258	\$ 76,289	\$ 2,556,245	\$ 3,929,966	\$ 38,808	\$ 54,066
April	\$ 729,167	\$ 7,291,667	\$ 16,953	\$ 93,242	\$ 2,840,272	\$ 4,358,153	\$ 43,037	\$ 59,990
May	\$ 729,167	\$ 8,020,833	\$ 18,648	\$ 111,891	\$ 3,124,299	\$ 4,784,644	\$ 47,248	\$ 65,897
June	\$ 729,167	\$ 8,750,000	\$ 20,344	\$ 132,234	\$ 3,408,326	\$ 5,209,439	\$ 51,443	\$ 71,787
	\$ 8,750,000		\$ 132,234			\$ 5,209,439	\$ 336,775	\$ 469,009

Estimated Monthly  
Recovery \$ 39,084

Spread to Classes Based upon Cost of Service in 06-KGSG-1209-RTS

Annual Actg. Depreciation Rate	2.790%	Rate of Return	8.32%
Monthly Actg. Depreciation Rate	0.233%	Rate of Return - Gross of Tax	11.85%
		Monthly Rate of Return - Gross of Tax	0.99%

**Kansas Gas Service  
Infrastructure Replacement Program  
Development of Rates**

**Exhibit DND-2**

Line No.	Customer Class	Pro-Forma Revenue - Docket No. 06-KGSG-1209-RTS	% of Revenue Requirement Responsibility	Cost Assignment	Customers Per - 06-KGSG-1209 Settlement - Cost of Service DJM-E5	Annual Cost per Customer	Monthly Charge
	(A)	(B)	(C)		(E)		
1	Residential Sales RS	\$ 182,113,692	71.3942%	\$ 334,846	572,794	\$ 0.5846	\$ 0.05
2	General Sales Svc. GS	40,798,857	15.9944%	\$ 75,015	51,074	\$ 1.4688	\$ 0.12
3	Gas Irrigation Sales GIS	137,875	0.0541%	\$ 254	182	\$ 1.3929	\$ 0.12
4	Small Generator Sales SGS	233,184	0.0914%	\$ 429	377	\$ 1.1373	\$ 0.09
5	Small Transportation STk	183,566	0.0720%	\$ 338	65	\$ 5.1926	\$ 0.43
6	Small Transportation STt	52,908	0.0207%	\$ 97	18	\$ 5.4044	\$ 0.45
7	Gen. Transportation GTk	6,373,664	2.4987%	\$ 11,719	2,341	\$ 5.0060	\$ 0.42
8	General Transportation GTt	3,234,446	1.2680%	\$ 5,947	837	\$ 7.1052	\$ 0.59
9	Gas Irrigation Transportation GITt	624,842	0.2450%	\$ 1,149	320	\$ 3.5902	\$ 0.30
10	1) Large Volume Transportation LVTk #	10,605,467	4.1577%	\$ 19,500	521	\$ 37.4278	\$ 3.12
11	2) Large Volume Transportation LVT #	9,071,707	3.5564%	\$ 16,680	157	\$ 106.2408	\$ 8.85
12	Wholesale Transportation WT t and k #	1,495,970	0.5865%	\$ 2,751	58	\$ 47.4238	\$ 3.95
13	Sales Service for Resale SSR	1,060	0.0004%	\$ 2	1	\$ 1.9490	\$ 0.16
14	Kansas Gas Supply D	154,589	0.0606%	\$ 284	4	\$ 71.0592	\$ 5.92
15	<b>Total</b>	<b>\$ 255,081,827</b>	<b>100%</b>	<b>\$ 469,009</b>			

**THE STATE CORPORATION COMMISSION OF KANSAS**  
**KANSAS GAS SERVICE**  
 a division of ONEOK, Inc.  
 (Name of Issuing Utility)

INDEX NO 45.1  
 SCHEDULE IRP

**All Rate Areas**

(Territory to which schedule is applicable)

Replacing Schedule Initial Sheet --  
 which was filed --

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 1 of 3 Sheets

**INFRASTRUCTURE REPLACEMENT PROGRAM SURCHARGE**

**AVAILABILITY**

This surcharge is applicable to every bill for service provided under each of the Company's sales and transportation rate schedules except where not permitted under a separately negotiated contract with a customer. Not applicable to bills for As-Available Gas Sales Service, Interruptible Gas Transportation Service or Compressed Natural Gas Service.

**NET MONTHLY CHARGE**

RS	Residential Sales Service	\$ 0.05
GS	General Sales Service	\$ 0.12
SGS	Small Generator Sales Service	\$ 0.09
KGSSD	Kansas Gas Supply D	\$ 5.92
GIS	Gas Irrigation Sales Service	\$ 0.12
SSR	Sales Service for Resale	\$ 0.16
STk	Small Transportation Service (k)	\$ 0.43
STt	Small Transportation Service (t)	\$ 0.45
GTk	General Transportation Service (k)	\$ 0.42
GTt	General Transportation Service (t)	\$ 0.59
WTt	Wholesale Transportation Service (k)(t)	\$ 3.95
GITt	Gas Irrigation Transportation Service (t)	\$ 0.30
LVTk	Large Volume Transportation Service (k)	\$ 3.12
LVTt	Large Volume Transportation Service (t)	\$ 8.85

Issued	<u>March</u>	<u>28</u>	<u>2012</u>
	Month	Day	Year
Effective	_____	_____	_____
	Month	Day	Year
By	_____		
	DAVID N. DITTEMORE, Manager-Regulatory Affairs		

KANSAS GAS SERVICE  
a division of ONEOK, Inc.  
(Name of Issuing Utility)

SCHEDULE IRP

All Rate Areas  
(Territory to which schedule is applicable)

Replacing Schedule Initial Sheet --  
which was filed --

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 2 of 3 Sheets

**INFRASTRUCTURE REPLACEMENT PROGRAM SURCHARGE (Cont.)**

**CALCULATION OF IRP SURCHARGE**

The Infrastructure Replacement Program (IRP) Surcharge shall be a fixed monthly amount calculated separately for each rate class and charged per meter serving the customer's account as a component of the Service Charge.

The **Total Carrying Charge** shall first be allocated based on the assignment to customer classes of Company's total revenue requirement, as approved by the Commission in Company's most recent rate case proceeding, and then divided by the number of customers in that rate class, the result divided by 12 to derive the Net Monthly Charge.

**Total Carrying Charge:** the sum of       the Depreciation Expense  
  plus       the Return  
  plus or minus     the Reconciliation

**Depreciation Expense:** All forecast Monthly Capital Expenditures in Company's capital budget for the upcoming IRP Year plus the cumulative capital expenditures from program inception until the start of the upcoming IRP Year, the sum multiplied by the Depreciation Rate.

**Return:** All Monthly Capital Expenditures, actual from program inception to the start of the upcoming IRP Year plus as-budgeted thereafter, less the corresponding actual/forecast values for Accumulated Depreciation and Accumulated Deferred Income Tax Liability, the net amount multiplied by the Rate of Return.

**Reconciliation** shall be calculated by comparing the actual carrying charges calculated on the actual monthly cast iron expenditures, plus estimated cast iron expenditures through June compared with actual IRP surcharge revenues collected plus estimated recoveries through June.

**Monthly Capital Expenditures** qualifying for this surcharge shall be the costs associated with Company's program to replace all cast iron distribution mains and related investments in its pipeline system, as approved by the Commission in Docket No. 12-KGSG-XXX-TAR. The cost of replacing bare steel service lines qualifying under the Gas System Reliability Surcharge (GSRS) shall be recovered through that rider.

Issued March 28 2012  
  Month                      Day                      Year

Effective \_\_\_\_\_  
  Month                      Day                      Year

By \_\_\_\_\_

DAVID N. DITTEMORE, Manager-Regulatory Affairs

KANSAS GAS SERVICE  
a division of ONEOK, Inc.  
(Name of Issuing Utility)

SCHEDULE IRP

All Rate Areas  
(Territory to which schedule is applicable)

Replacing Schedule Initial Sheet --  
 which was filed --

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 3 of 3 Sheets

**INFRASTRUCTURE REPLACEMENT PROGRAM SURCHARGE (Cont.)**

**Depreciation Rate** shall be the rate, stated on a monthly basis, used by Company to depreciate distribution mains. If a Commission order effects a new depreciation rate in the middle of an IRP year, the new rate shall be applied beginning with that effective month.

**Rate of Return** shall be the Overall Rate of Return approved by the Commission in Company's most recent base rate case, adjusted for the income tax expense applicable to the corresponding Return on Equity, all stated on a monthly basis. If a Commission order effects a new Overall Rate of Return in the middle of an IRP year, the new rate shall be applied beginning with that effective month.

**DEFINITIONS AND CONDITIONS**

1. The IRP Year shall be a 12 month period beginning July 1 and ending June 30.
2. The IRP Surcharge shall be reflected on a customer's monthly bill in conjunction with the Service Charge as a single line item.
3. All provisions of this surcharge are subject to changes made by order of the Commission.

Issued	<u>March</u>	<u>28</u>	<u>2012</u>
	Month	Day	Year
Effective	_____	_____	_____
	Month	Day	Year
By	_____		
	DAVID N. DITTEMORE, Manager-Regulatory Affairs		