BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION OF KANSAS GAS SERVICE, A DIVISION OF ONEOK, INC., FOR ADJUSTMENT OF ITS NATURAL GAS RATES IN THE STATE OF KANSAS	]]]]]	KCC Docket No. 06-KGSG-1209-RTS

TESTIMONY OF

ANDREA C. CRANE

IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

November 1, 2006

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is One North Main Street, P.O. Box 810, Georgetown, Connecticut 06829.

Q. Did you previously file testimony in this proceeding?

A. Yes, on September 27, 2006, I filed testimony on behalf of the Citizens' Utility Ratepayer Board ("CURB") addressing the base rate case filing made by Kansas Gas Service ("KGS"), a division of ONEOK, Inc. In that testimony, I presented CURB's revenue requirement recommendation, including its recommendation regarding cost of capital. I also testified on several policy issues. CURB also filed the testimony of Brian Kalcic, who addressed the Company's proposed rate design. CURB and Unified School District ("USD") No. 259 jointly sponsored the testimony of Michael J. Majoros, who testified on depreciation issues.

Q. Please briefly summarize the Company's proposal.

A. On or about May 15, 2006, the Company filed an Application with the Kansas Corporation Commission ("KCC" or "Commission") seeking a rate increase of $73.3 million. The Company's request would have resulted in an increase of approximately 35.9% over retail distribution sales revenue at present rates. On a total revenue basis, including gas recovery revenues, the Company's request would have resulted in an increase of approximately 10.6%. The Company's claim was based on a return on equity of 11.25%.

In addition to its requested rate increase, KGS also proposed a Pension and Employee Benefits Rider ("PEBR") to track and flow-through to ratepayers certain employee benefit costs, and an optional Customer Choice Rate Design ("CCRD") that would allow customers to select a high fixed customer charge option.

Q. Please summarize the conclusions and recommendations in CURB's testimony.

A. Based on my analysis of the Company's filing, I recommended that the KCC award the Company a rate increase of $42,824,276. This recommendation did not include the revenue requirement impact of any of Mr. Majoros' recommendations. I also recommended a cost of equity for the Company of 9.65% and an overall cost of capital of 8.03%.

In addition, I recommended that the Company's proposed PEBR be denied. I also recommended that the KCC reconsider its sharing formula for off-system sales and capacity release revenues. Finally, I recommended that the KCC reconsider its use of the Distrigas allocation methodology and determine if it is still an acceptable methodology given the evolution that has occurred in ONEOK's business segments.

Mr. Kalcic recommended that the KCC reject the Company's proposed CCRD. He also proposed certain RS and GS rate design guidelines.

In his testimony, Mr. Majoros recommended that the Company reclassify the Company's non-legal asset retirement obligations ("non-legal AROs") from Account 108 (Accumulated Provision for Depreciation) to Account 254 (Other Regulatory Liabilities). He also recommended that the KCC consider returning these amounts to ratepayers over some specific amortization period. Finally, Mr. Majoros recommended that the KCC adopt a normalized net salvage allowance approach to calculate non-legal AROs, based upon the most recent five years of actual experience.

Q. Have the parties engaged in settlement negotiations?

A. Yes, the parties have engaged in settlement negotiations and a Stipulated Settlement Agreement ("Agreement") has been reached.

Q. Please summarize the provisions of the Agreement.

A. The Agreement provides for a revenue increase of $52 million. The Agreement is a "black box" settlement, so that very few specific components of the Company's revenue requirement are specified in the Agreement. The Agreement does specify the amount included for pension costs and for other post-employment benefit costs. In addition, it specifies the amount included for Ad Valorem costs, which is subject to an Ad Valorem Surcharge Rider. It also specifies the ratemaking treatment for certain Mid-Continent Marketing Center ("MCMC") Assets.

Pursuant to the Agreement, the Company has agreed to withdraw its requests for the PEBR and the CCRD. The Company has also agreed to change the margin sharing formula for off-system sales, so that ratepayers will now be credited with 90% of these margins instead of 75%.

The Agreement does not specify the capital structure and cost of capital used to develop the overall revenue requirement. However, the parties recognize that Senate Bill ("SB") 414, which permits a gas utility to seek recovery of certain eligible infrastructure system replacements between rate cases, requires a capital structure and cost of capital to be specified. Therefore, for purposes of implementing SB 414, and other instances where a

KCC-approved carrying charge is required, the Agreement sets out a capital structure consisting of 52.48% equity and 47.52% debt. The associated equity and debt costs specified for purposes of SB 414 are 10.20% and 6.24% respectively.

The Agreement specifies the rates and rate design resulting from the $52 million revenue increase. There are also some tariff modifications and other tariff provisions specified in the Agreement.

With regard to depreciation expense, the Agreement specifies the depreciation and cost of service removal rates to be used by KGS. KGS has also agreed to recognize a regulatory liability for tracking the component of depreciation expense associated with cost of removal in a separate subaccount. The Agreement identifies the initial amount in this subaccount as $1,669,000 and also identifies an annual cost of removal allowance of $8,739,613 that will be included in the annual depreciation accrual. The Agreement also includes a provision that the KCC should open a generic docket to review and investigate depreciation policies and practices.

Q. Do you believe that the Agreement provides a reasonable resolution of this case?

A. Yes, I do. The proposed rate increase of $52 million is higher than the $42.8 million proposed by CURB, but it is well below the Company's initial request of $73.3 million. In addition, the Company's withdrawal of the PEBR and CCRD, and its agreement to increase the ratepayers' share of off-system sales margins, will all provide benefits to ratepayers.

The capital structure specified in the Agreement for use in complying with SB 414 is the same capital structure initially filed by KGS and accepted by CURB in my testimony. In addition, the return on equity of 10.2% is closer to CURB's recommended 9.65% than to the Company's initial request of 11.25%.

Moreover, under the Agreement, ratepayers will have greater assurance that amounts collected for cost of removal will actually be used for the purpose intended. Segregating the removal costs provided by ratepayers in a separate subaccount will allow the KCC to easily track these amounts. In addition, since these amounts will be deemed a regulatory liability for ratemaking purposes, the KCC will be able to take whatever action it deems appropriate in the future, should the Company's actual cost of removal fall far short of projected costs. This provision provides significant protection for ratepayers.

Q. Are there other reasons why you believe that the Agreement is reasonable?

A. Yes, there are. First, while CURB believes that it presented a strong case in its direct testimony, there is always litigation risk in any rate case proceeding. Therefore, CURB recognizes that we may not have prevailed on all issues. The Agreement eliminates this litigation risk and provides certainty to ratepayers about the level of their gas distribution base rates. In addition, the Agreement will result in litigation cost savings for signatories to the Agreement. These cost savings will benefit ratepayers, the State of Kansas, USD No. 259, and the United States Department of Defense and other affected federal agencies.

Q. Do you believe that the Agreement is in the public interest?

A. Yes, I do. The Agreement represents a reasonable compromise of the issues in this case. It will provide real benefits to ratepayers relative to the Company's initial proposals. In addition, the Agreement results in litigation cost savings. For the reasons stated above, I believe that the Agreement is in the public interest and should be adopted by the KCC.

Q. Does this conclude your testimony?

A. Yes, it does.

<u>VERIFICATION</u>

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD) ss:

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief.

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 31st day of October, 2006.

Notary Public Marjorie M. Lenin

My Commission Expires: DECEMBER 31, 2008

CERTIFICATE OF SERVICE

06-KGSG-1209-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 1st day of November, 2006, to the following:

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