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Kansas Corporation Commission
/S/ Susan K. Duffy

**BEFORE THE CORPORATION COMMISSION**

**OF THE STATE OF KANSAS**

STATE CORPORATION COMMISSION

SEP 27 2006

Susan Talbott Docket Room

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|---|---|---|
| **In the Matter of the Application of** | ) | |
| **Of Kansas Gas Service, a** | ) | |
| **Division of ONEOK, Inc. for** | ) | **Docket No. 06-KGSG-1209-RTS** |
| **Adjustment of its Natural Gas** | ) | |
| **Rates in the State of Kansas** | ) | |

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**DIRECT TESTIMONY OF**
**MICHAEL J. MAJOROS, JR.**

**ON BEHALF OF**

**THE CITIZENS' UTILITY RATEPAYER BOARD**
**And**
**UNIFIED SCHOOL DISTRICT NO. 259**

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**September 27, 2006**

Direct Testimony
Of
Michael J. Majoros, Jr.

## Introduction

**Q. State your name, position, and business address.**

A. My name is Michael J. Majoros, Jr. I am Vice President of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King"), located at 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

**Q. Describe Snavely King.**

A. My firm, Snavely King, is a progressive economic consulting firm founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. Snavely King represents the interests of government agencies, businesses, and individuals who are consumers of telecom, public utility, and transportation services.

We have a professional staff of 11 economists, accountants, engineers and cost analysts. Most of our work involves the development, preparation and presentation of expert witness testimony before Federal and state regulatory agencies. Over the course of our 35-year history, members of the firm have participated in more than 1,000 proceedings before almost all of the state commissions and all Federal commissions that regulate utilities or transportation industries.

**Q. Have you prepared a summary of your qualifications and experience?**

A. Yes, Appendix A is a summary of my qualifications and experience. Appendix B contains a tabulation of my appearances as an expert witness before state and Federal regulatory agencies.

**Q. For whom are you appearing in this proceeding?**

A. I am appearing on behalf of the Citizens' Utility Ratepayer Board ("CURB") and the Unified School District No. 259 ("USD 259").

**Subject and Purpose of Testimony**

**Q. What is the subject of your testimony?**

A. My testimony addresses depreciation.

**Q. What is the purpose of your testimony?**

A. My testimony presents my recommendations regarding Kansas Gas Service's ("KGS") depreciation proposals in this proceeding.

**Q. Do you have any specific experience in the field of public utility depreciation?**

A. Yes, I and other members of my firm specialize in the field of public utility depreciation. We have appeared as expert witnesses on this subject before the regulatory commissions of almost every state in the country. I have testified in over one hundred proceedings on the subject of public utility depreciation and represented various clients in several other proceedings in which depreciation was an issue but was settled. I have also negotiated on behalf of clients in fifteen of the Federal Communications Commissions' ("FCC") Triennial Depreciation Represcription conferences.

**Q. Does your experience specifically include gas company depreciation?**

A. Yes, I have appeared as an expert on the subject of gas company depreciation in several proceedings.

**Q. Have you ever appeared before the Kansas State Corporation Commission ("KCC")?**

A. Yes, I have appeared before the KCC on several occasions, including appearances on behalf of Staff as well as my clients in this proceeding.

**<u>Summary of Recommendations</u>**

**Q. What do you recommend?**

A. In recognition of current accounting rules, KGS has identified the non-legal asset retirement obligations ("non-legal AROs") contained in its accumulated depreciation account. These result from prior cost of removal charges to customers that exceeded KGS's actual cost of removal expenditures. I recommend that the KCC specifically recognize and reclassify these amounts from KGS's account 108 - Accumulated provision for depreciation, to account 254 – Other regulatory liabilities (cost of removal), consistent with the treatment prescribed by generally accepted accounting principles ("GAAP") and required for financial reporting purposes by the Securities and Exchange Commission ("SEC"), and consistent with the KCC's decision in Docket No. 05-WSEE-981-RTS.[1]

The KCC should also consider returning this amount to ratepayers via an amortization over a specific period, which could range from one year to the average remaining life of the plant functions to which these regulatory liabilities relate. At a minimum, however, the KCC must retain the non-legal ARO balance as a permanent rate base offset.

On a going-forward basis, the KCC should change the inflated approach KGS has used to calculate the annual net salvage costs for "non-legal AROs." Rather than KGS's inflated approach, I recommend an annual normalized net salvage allowance based on the average of the most recent five years of KGS's actual experience. This approach will keep KGS whole regarding any cost of removal it actually incurs and will stop the significant build-up of the regulatory liability. This approach will also facilitate the tracking of the regulatory liability resulting from non-legal AROs.

In summary:

- I recommend that the KCC recognize KGS's non-legal AROs as a regulatory liability for ratemaking purposes in Kansas.

- I recommend that instead of the Company's inflated net salvage proposals, the KCC should adopt a normalized net salvage allowance approach based upon the most recent five years of actual experience. This will reduce KGS's depreciation proposal by approximately $7.4 million.

**<u>KGS' Present Depreciation Rates</u>**

**Q. What are KGS's present deprecation rates and when were they established?**

A. Statement A of Dr. White's Exhibit REW-1 shows KGS's current depreciation rates, and the parameters underlying those rates are shown on Statement E.

[1] Order on Petitions for Reconsideration and Clarification, Docket No. 05-WSEE-981-RTS, issued February 13, 2006, p. 49.

**Q. Please explain the calculation of the present depreciation rates.**

A. The present rates are straight-line remaining life depreciation rates, using the broad group life procedure.[2] They were calculated based on December 31, 2000 plant and reserve balances.[3]

**Q. When did the KCC approve the Company's present depreciation rates?**

A. The KCC approved the present depreciation rates in its September 17, 2003 "Order Approving Stipulated Settlement Agreement and Adopting Staff's Rate Design", in KGS's last rate case; Docket No. 03-KGSG-602-RTS.[4] The use of the Company's proposed rates was agreed to as part of the Stipulated Settlement Agreement in that Docket:

> 9. The signatory parties consent to use KGS's proposed depreciation rates. The signatory parties further agree that this consent does not mean that the signatory parties acquiesce to the propriety of KGS's depreciation parameters, methodology, procedure or techniques. This consent to use KGS's proposed depreciation rates should not be construed by any party or consultant as precedent concerning the merits of depreciation issues in any future proceeding in Kansas or in any other jurisdiction.[5]

**<u>Traditional Inflated Future Cost Approach ("TIFCA")</u>**

**Q. Why are KGS's recoveries for future cost of removal grossly excessive?**

A. KGS's recoveries for future cost of removal, also called non-legal asset retirement obligations ("AROs"), are grossly excessive due to the process it uses to derive these estimates and then convert them into depreciation

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[2] Direct Testimony of Ronald E. White, p. 10.
[3] Exhibit REW-1, p. 1.
[4] See response to CURB 156.

expense. The process results in annual charges for future cost of removal that vastly exceed actual expenditures.

KGS's annual charge for cost of removal expense exceeds its actual annual cost of removal because KGS uses a Traditional Inflated Future Cost Approach ("TIFCA") to make its future cost of removal estimates. KGS has bundled the inflated cost of removal factors in most of its depreciation rates, and then applied those rates for years to an ever-expanding depreciable plant base.

This latter feature of KGS's process, i.e., the application of inherently inflated ratios to ever-expanding plant balances results in a geometric build-up of the non-legal ARO regulatory liability. The accruals resulting from this approach have vastly exceeded, year-by-year, the money that KGS actually spent or allocated for cost of removal.

**Q. Why do you say, "spent or allocated" for cost of removal?**

A. Most of KGS's recorded cost of removal is actually an allocated or assigned portion of replacement asset costs to the cost of removal account. That is, KGS incurs costs associated with the replacement of an existing asset, and allocates a portion of those costs to "cost of removal" rather than "plant." KGS spends relatively little for pure cost of removal activities that involve no such allocation.[6]

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[5] Stipulated Settlement Agreement, Docket No. 03-KGSG-602-RTS, p. 4.
[6] Response to CURB 131.

**Q. How does process result in inflated cost of removal factors?**

A. KGS's net salvage studies relate removal costs (largely allocated) in current dollars to asset retirements expressed in very old historical original cost dollars. The inflation experienced between the original in service date and the asset's ultimate retirement from service results in current removal cost dollars that are many multiples of the historical original cost dollars of the retired asset. Using that same ratio to predict future removal costs implicitly assumes future inflation will be the same as experienced in the past. This ratio is extrapolated into the future and then a portion of all "future" inflation is included in the current depreciation rate and charged to today's ratepayers.

**Q. Is there any doubt that KGS's cost of removal factors include a component for future inflation?**

A. Exhibit___(MJM-1) is the Company's response to CURB 137 where we asked Dr. White the question. His answer was "Dr. White's net salvage estimates properly include a relative measurement of cost of removal associated with plant retirement from service." I think Dr. White agrees, but his answer is less than clear.

**Q. Can you provide an example of KGS's net salvage studies?**

A. Yes, I will provide a hypothetical example of KGS's studies in this case. These studies are summaries of annual retirements, gross salvage, cost of removal and net salvage, used as a basis for future net salvage proposals. The following table is a hypothetical example of KGS's net salvage studies, focusing on cost of removal.

**Hypothetical KGS Net Salvage Study**

| Add Year (a) | Ret. Year (b) | Original Cost of Retirement in Addition Year (c) | Allocated Portion of Replacement Cost in Today's $ (d) | Cost of Removal (%) (e)=(d)/(c) |
|---|---|---|---|---|
| 1947 | 1997 | 1,000 | (500) | (50)% |
| 1948 | 1998 | 2,000 | (1,500) | (75) |
| 1949 | 1999 | 2,500 | (1,000) | (40) |
| 1950 | 2000 | 3,000 | (2,500) | (83) |
| 1951 | 2001 | 4,000 | (5,000) | (125) |
| | Total | 12,500 | (10,500) | (84)% |
| | 3-year Avg. | 3,167 | (2,833) | (89)% |
| | 5-year Avg. | 2,500 | (2,100) | (84)% |

**Q. Explain this table.**

A. The "addition" years in column (a) are the years the assets in column (c) were originally added to plant. The "retirement" years in column (b) are the years these assets were retired from service. Note the fifty-year difference between the original placement rears and the retirement years. KGS added these assets to plant fifty years ago, they lived their service life, and then KGS replaces them with new assets.

The cost of removal in column (d) is the portion of the current replacement cost that KGS assigns to cost of removal in the replacement year. For example, an asset purchased for $4,000 in 1951 was replaced in 2001. At the same time, KGS replaces the asset and assigns $5,000 of the replacement to cost of removal as shown in column (d). The ratios in column (e) are the cost of removal amount expressed as a percentage of the original cost of the retired assets; that is:

$5,000 removal / $4,000 original cost = 125 percent.

**Q. How did KGS use these types of figures to estimate future net salvage ratios?**

A. KGS considered 5-year bands of data. I have used both a 3-year and a 5-year band in the hypothetical TIFCA example.

**Q. Does TIFCA result in an increase to depreciation rates?**

A. Yes, it does. Any negative net salvage ratio will increase a depreciation rate. KGS's net salvage ratios will increase the rates even further. As shown above, TIFCA net salvage ratios depend on the relationship of the allocated cost of removal in current dollars as a percentage of the <u>original</u> cost of the assets retired. The timing mismatch within this relationship results in an inflated negative net salvage ratio. The inflated negative net salvage ratio is then bundled into the depreciation rate calculation, and applied to the gross plant balance. This procedure results in annual cost of removal charges to ratepayers which vastly exceed KGS's annual costs.

**Q. Would you please explain how this happens?**

A. The driving concept is that the retirements are expressed in very old original cost dollars versus retirement costs expressed in current dollars, thus resulting in a fundamental mismatch.

As an additional example, assume that the $4,000 of assets retired in 2001 were actually placed in service in 1951 or 50 years earlier. The cost of removal in 2001 dollars is $5,000, or 125 percent, of the 1951 addition. The result is negative 125 percent because it fails to take into account the fact that the $5,000 cost of removal includes 50 years of inflation relative to what that removal cost would have been in 1951.

If we assume the inflation rate has been 5 percent annually, the cost of removal in 50-year old dollars would be only $436 or 11 percent of the original $4,000 installation. TIFCA, however, shows 125 percent as a result of this timing mismatch. The same disparity would be true for all other years in the example. There is a fundamental mismatch between the dollars associated with the installation dates of the assets and the dollars associated with the dates they are removed from service.

**Q. How would the TIFCA process use this ratio?**

A. The TIFCA process would use a negative 125 percent ratio in the current depreciation rate calculation. This approach is equivalent to capitalizing 125 percent of the existing plant in service. The example above addresses only retirements of existing plant. But at the same time, the actual plant balance has been growing for many reasons. The hypothetical company has been making additions every year due to growth and replacements. These additions have also experienced inflation.

Assume the current total plant balance in this account is $100,000,000. Using TIFCA, a Company would calculate depreciation rates designed to collect $225,000,000 from ratepayers, i.e. $125,000,000 more than the company spent on the plant, <u>and this would be based on the $4,000 retirement</u>

discussed previously. I have included this extreme example to demonstrate the important "orders of magnitude" mismatch between the gross plant balances to which depreciation rates are applied, and the relatively low levels of retirements contained in many of the accounts covered by KGS's TIFCA studies, from which the inflated cost of removal ratios are drawn.

These mismatches (orders of magnitude and dollar values) lead to exorbitant current charges to current ratepayers for an inflated future cost of removal. The charges far exceed the annual amounts KGS would record even if it had legal AROs on which to spend the money, which it does not.[7] KGS's future net salvage ratios are inflated, but not reduced to their fair or net present value. They result in excessive charges because these inflated net salvage ratios are applied to current plant balances. Thus, KGS charges current ratepayers for inflated removal costs, a large portion of which will not be incurred when the assets are retired.

**Q. Can you provide an actual KGS example which demonstrates that it, in fact, follows the TIFCA process you have explained?**

A. Yes. Exhibit___(MJM-2) is a copy of KGS's response to CURB 131. It contains documentation of an actual main replacement work order. In this case, the total replacement cost was $4,015.84. KGS allocated $346.69 or 8.63 percent of the replacement cost to cost of removal. The work order shows

[7] See response to CURB 169. If KGS had legal AROs for all of its plant, it would be required to reduce the estimated retirement costs to their fair net present value – not the inflated future value. Given this fact, it is not surprising that for the purposes of its depreciation study, KGS disavowed any legal AROs even under the principle of "promissory estoppel." Although KGS specifically

that the related retirement was only $219.77. The $346.69 allocated cost of removal and $219.77 are what finds their way into KGS's TIFCA studies. The net salvage ratio for this retirement is 157.75 percent and that is what Dr. White would propose as a negative net salvage – all other things equal. He would apply the 157.75 percent to the $3,669.15 net addition to arrive at a future net salvage estimate of $5,788.08 which he allocates over the remaining life of the new addition. Instead of paying the Company $346.69, ratepayers would pay way more due to the inflation reflected in the 157.75 percent calculation.

**New Information and New Issues**

**Q. Describe the new information revealed by recent accounting pronouncements.**

A. Recent accounting pronouncements reveal that prior recognition of future cost of removal in current depreciation expense has resulted in significant liabilities to ratepayers. The Federal Energy Regulatory Commission ("FERC") defined these amounts as "non-legal asset retirement obligations" ("non-legal AROs").[8]

**Q. What is the genesis of this new information?**

A. The genesis is the Financial Accounting Standards KCC's ("FASB") 2002 Statement of Financial Accounting Standard No. 143 ("SFAS No. 143") which

disavowed any obligation to incur future removal costs, it proposes to charge inflated removal costs to today's customers.

[8] See FERC Order No. 631, par.36.

addresses asset retirement obligations ("AROs") associated with long-lived plant.[9]

SFAS No. 143 addresses legal obligations to incur a cost when an asset is retired – legal asset retirement obligations ("legal AROs"). SFAS No. 143 considers such an obligation to be a component of the original cost of the asset. It requires capitalization and depreciation of the discounted fair value of the estimated asset retirement cost over the asset's life.

SFAS No. 143 also identified a significant regulatory liability resulting from public utilities' past inclusion of TIFCA-generated future cost of removal and dismantlement factors in depreciation rates. FERC identified these amounts as "non-legal" asset retirement obligations, meaning that the utilities do not have actual legal obligations and liabilities to incur these costs in the future. Consequently, they are not a capital cost of the asset. SFAS No. 143 requires reporting of non-legal AROs as liabilities to ratepayers - if the requirements of SFAS 71 are met.[10]

**Q. What conditions create a regulatory liability for GAAP purposes?**

A. SFAS 71, ¶11, provides that a regulator's rate actions impose a liability on the utility to its customers (regulatory liability) if the regulator provides "current rates intended to recover cost expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced

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[9] FERC Order No. 631 is that agency's implementation of SFAS No. 143 for regulatory purposes for utility operations subject to that agency's jurisdiction.
[10] SFAS No. 143, paragraph B.73.

by corresponding amounts."[11] For KCC-regulated utilities, this "understanding" has been implicit. Nevertheless, it is sufficiently clear to KGS to warrant creation of the regulatory liability for GAAP financial reporting purposes. Now that SFAS No. 143 has identified the amounts, they should be recognized as the regulatory liabilities they are.

**Q. Does KGS have any regulatory liabilities relating to non-legal AROs?**

A. Yes, KGS's 2005 10-K Report states the following:

> In accordance with long-standing regulatory treatment, we collect through rates the estimated costs of removal on certain regulated properties through depreciation expense, with a corresponding credit to accumulated depreciation, depletion and amortization. These removal costs are non-legal obligations as defined by Statement 143. However, these non-legal asset removal obligations should be accounted for as a regulatory liability under Statement 71. Historically, the regulatory authorities which have jurisdiction over our regulated operations have not required us to track this amount; rather these costs are addressed prospectively as depreciation rates are set in each general rate order. We have made an estimate of our removal cost liability using current rates since the last general rate order in each of our jurisdictions. However, significant uncertainty exists regarding the ultimate determination of this liability pending, among other issues, clarification of regulatory intent. We continue to monitor the regulatory authorities and the liability may be adjusted as more information is obtained. We have reclassified the estimated non-legal asset removal obligation from accumulated deprecation, depletion and amortization to non-current liabilities in other deferred credits on our balance sheets as of December 31, 2005 and 2004. To the extent this estimated liability is adjusted, such amounts will be reclassified between accumulated depreciation,

[11] SFAS No. 71, ¶11 and 11(b).

> depletion and amortization and other deferred credits and thus will not have an impact on earnings.[12]

**Q. Did the Company state how much the regulatory liability for cost of removal is in its 10-K Report?**

A. No, it did not. However, in response to CURB 175, the Company provided the following quantification of its cost of removal regulatory liability.

Asset Removal Costs Recovered
In Excess of That Incurred[13]
$000

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| KGS | $ 1,669 | $ 811 | $ 764 |

**Q. Why did the Company not quantify the amount in its 10-K Report?**

A. Data request CURB 175e asked, "Explain fully why ONEOK Inc. does not disclose the actual amounts estimated for the cost of removal liability in the 10-K Report." The Company responded:

> Total amounts for all of ONEOK, Inc.'s regulated entities are immaterial to ONEOK, Inc.'s consolidated financial statements and notes thereto, for separate disclosure. The entry for December 31, 2003, was approximately 0.6% of the balance sheet. The entry for December 31, 2004, was approximately 0.5% of the balance sheet. The entry for December 31, 2005, was approximately 0.4% of the balance sheet.[14]

[12] ONEOK, Inc., December 31, 2005 10-K Report, p. 73.
[13] See response to CURB 175a.
[14] See response to CURB 175e.

**Q. Do you agree with KGS's quantification of its regulatory liability?**

A. No, in my opinion it appears to be significantly understated. That is because KGS appears to have netted gross salvage against the annual cost of removal accrual. The accounting rules deal specifically with cost of removal.

**Q. Do these accounting rules require separation of non-legal cost of removal contained in accumulated depreciation?**

A. Yes, they do.

**Q. Is Dr. White familiar with SFAS No. 143 and FERC Order No. 631?**

A. Yes, he is.

**Q. Is KGS's regulatory liability recognizable in Dr. White's study?**

A. No, Dr. White does not discuss this regulatory liability in his testimony or study. Furthermore, when asked, "What impact, if any, did the application of FIN 47 [an interpretation of FASB 143] have upon the proposed depreciation rates and expense in this rate case?," Dr. White responded, "None. FIN 47 is a financial reporting standard unrelated to the development of depreciation rates for a regulated entity."[15]

**Q. Has Dr. White provided his rates separated into the capital recovery, gross salvage and cost of removal components?**

A. No, he has not. Nor has he provided separated reserve amounts.

**Q. Do you recommend separation of reserves and rates?**

A. Yes, I recommend this separation. New regulatory accounting rules require separation because it facilitates external reporting for regulatory analysis and

[15] See response to CURB 174.

rate-setting purposes. From a regulatory standpoint, I am unable to rationalize any reasonable objection to this separation.

**Q. What portion of KGS's depreciation proposal relates to non-legal AROs?**

A. I am not able to provide those numbers because I do not know how much of Dr. White's future net salvage proposals relate to cost of removal and how much relates to gross salvage. Consequently I am only able to provide the "net salvage" component of KGS's depreciation proposal. Net salvage is the difference between estimated gross salvage and cost of removal. KGS's future net salvage is a net negative meaning that cost of removal exceeds gross salvage. Negative future net salvage increases depreciation. KGS is proposing the following capital recovery and net salvage annual depreciation expense amounts based on December 31, 2005 balances.

**Disaggregation of**
**KGS's Depreciation Proposal**
**Based on 2005 Plant Balances[16]**
**($000)**

| | | Annual Accrual Expense |
|---|---|---|
| 1. | Capital Recovery | $25,732 |
| 2. | Net salvage | 9,726 |
| | | |
| 3. | Total accrual | $35,458 |

[16] See Exhibit___(MJM-4)

**Q. Has recovery of the non-legal AROs been a major subject in any of your prior testimony regarding KGS?**

A. Yes, it has. I discussed the requirements of SFAS No. 143 and FERC Order No. 631 in my testimony in Docket No. 03-KGSG-602-RTS. In that docket I concluded that "on a going-forward basis, jurisdictional entities must be prepared to specifically identify and justify any non-legal AROs that they propose to be included in their rates."[17] At the time my testimony was filed, KGS had not yet filed an annual report quantifying the collections for non-legal AROs. I was unable to identify the amount of the cost of removal regulatory liability, but I was able to conclude that KGS was proposing to collect $7.9 million annual for net salvage in its depreciation proposal. In that case I recommended a normalized net salvage allowance of $1.1 million based on KGS's most recent 5 years of net salvage activity at the time.[18]

**Q. Explain the new issues that result from this new information provided by SFAS No. 143 and FERC Order No. 631.**

A. There are several new issues. One important new issue is the need for the KCC to **<u>recognize</u>** KGS's non-legal ARO reserve as a regulatory liability for regulatory and ratemaking purposes. Although KGS has recognized these amounts as regulatory liabilities in its 10-K reports, it has not done so for regulatory and ratemaking purposes. KGS's application does not even disclose that FERC Order No. 631 changed the Uniform System of Accounts

[17] Direct Testimony of Michael J. Majoros, Jr., Docket No. 03-KGSG-602-RTS, pp. 23-24.
[18] Direct Testimony of Michael J. Majoros, Jr., Docket No. 03-KGSG-602-RTS, pp. 24-25.

to require these amounts to be recorded in separate sub-accounts of depreciation expense and accumulated depreciation.

**Summary of New Issues**

1. The KCC should recognize and require separate identification and regulatory reporting in Kansas.
2. The KCC should consider how to dispose of or reduce the regulatory liability for ratemaking purposes.
3. The KCC should consider how to avoid the continued exponential build-up of the regulatory liability on a going-forward basis.

**The KCC Should Require Separate Identification and Regulatory Reporting**

**Q. What provisions of FERC Order No. 631 require separate identification and reporting of non-legal AROs?**

A. FERC Order No. 631 requires jurisdictional entities such as KGS to "maintain separate subsidiary records for cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation in order to separately identify such information to facilitate external reporting and for regulatory analysis, and rate setting purposes. Therefore, the Commission [amended] the instructions of accounts 108 ...in Parts 101 ... to require jurisdictional entities to maintain separate records for the purposes of identifying the amount of specific allowances collected in rates for non-legal retirement obligations included in the depreciation accruals."[19] The KCC should extend this requirement to regulatory and ratemaking purposes in Kansas.

## The KCC Should Specifically Recognize the Regulatory Liability

**Q. Why is it necessary for the KCC to recognize a regulatory liability for the non-legal cost of removal and dismantlement amounts?**

A. Although the FERC has recognized and identified the amounts involved, FERC does not require reporting the non-legal AROs as regulatory liabilities. FERC deferred to the states regarding specific recognition of a regulatory liability for ratemaking purposes. Consequently, while FERC Order No. 631 provides a new transparency by requiring identification of the amounts and maintenance of separate subsidiary records for regulatory analysis and rate setting purposes, it did not specifically recognize a regulatory liability for non-legal asset retirement obligations.

From a regulatory and ratemaking standpoint, nothing holds KGS specifically accountable for these excess collections, even though the public accounting profession and the Securities and Exchange Commission recognize that they are regulatory liabilities and that the KCC implicitly holds KGS accountable.

Regardless of the transparency provided by FERC, KGS does not identify or even mention these requirements or the issue in its depreciation study and general rate case filing. This is an intolerable situation. The accountability must be explicit, and the KCC must establish that accountability.

[19] FERC Docket No. RM02-7-000, Order No. 631, paragraph 38.

Later, I will demonstrate the <u>unlikelihood</u> that KGS will spend these amounts for cost of removal in the magnitude that they have been collected. Nevertheless, even if it was highly probable that KGS might spend all this money for future cost of removal, it is fair and reasonable for the KCC to recognize the ratepayers' claims on these monies until actually spent on their intended purpose. <u>Unless they are explicitly identified as "subject to refund," there is an ongoing and wholly unnecessary risk that they are merely hidden potential income to KGS.</u>

**Q. Does KGS have any legal obligations to incur the non-legal ARO costs?**

A. No, KGS's non-legal AROs do not even meet baseline tests as liabilities to incur asset removal costs. The KCC, therefore, should recognize the excess collections as regulatory liabilities owed to ratepayers unless and until KGS spends the funds on their intended purpose.

It is critical that the KCC require KGS to explicitly identify and report this regulatory liability and all related activity in all future reports, rate cases and depreciation studies that it files with the KCC. The KCC should require prominent disclosure of its explicit recognition of this amount as an intrastate regulatory liability in KGS's future annual reports to ensure sufficient recognition of and transparency concerning these amounts. Without a requirement for separate identification and reporting of these amounts, they are hidden from the ratemaking and regulatory process in Kansas. If it were not for CURB and USD 259, the issue would not have come before the KCC in this proceeding even though KGS has built a $1.7 million regulatory liability with no explicit plan to return it.

**Q. Would it be sufficient to report the item as a "deferred credit"?**

A. No, treatment as a deferred credit would fail to address the core issue – these are costs recovered for a particular purpose and, if not used for that purpose, will result in future rates being decreased, as described in SFAS No. 71, ¶11. KGS could easily assert in the future that ratepayers have no claim to a deferred credit. The KCC must specifically recognize and require reporting by KGS as a regulatory liability for regulatory and ratemaking purposes. Otherwise, KGS will identify the amounts as accumulated depreciation for regulatory accounting purposes.

**Q. What is wrong with continuing to record the regulatory liability as accumulated depreciation?**

A. KGS and all utilities consider accumulated depreciation to represent a measure of their capital they have recovered from their ratepayers. As simplistic as it sounds, utilities consider any amount in accumulated depreciation to be "their money" even if they collected it for a fictitious future cost.[20]

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[20] KGS was asked specific questions regarding whose money the cost of removal regulatory liability represented in CURB 177. The Company objected to the data request and refused to answer.

**Q. Is it true that accumulated depreciation is a rate base deduction and therefore ratepayers are better off due to that fact?**

A. This is a false distinction between the two approaches. Accumulated depreciation is indeed a rate base deduction. A regulatory liability also can (and should) be a rate base deduction.

**Q. What is the appropriate treatment of KGS's non-legal ARO regulatory liability?**

A. The KCC must separate KGS's non-legal ARO regulatory liability from accumulated depreciation. The appropriate accounting entry is a debit to account 108 - Accumulated depreciation and an equivalent credit to account 254 – Other regulatory liabilities.

**Q. Has the KCC ever ordered regulatory liability treatment for non-legal AROs in a prior proceeding?**

A. Yes, in Docket No. 05-WSEE-981-RTS the KCC ordered regulatory liability treatment for terminal cost of removal which is also a non-legal ARO. The KCC said:

> The regulatory liability imposed on terminal net salvage is a significant factor. Majoros seemed to be concerned that even with a regulatory liability, an alternative regulatory scheme may allow Westar to divert the funds collected for terminal net salvage. The Commission reminds the parties that its intent in tracking the terminal net salvage values separately and determining that the amounts should be considered a liability is to establish the fact that Westar has an obligation to refund to ratepayers any amount of terminal net salvage not used for demolishing, dismantlement or otherwise removing plant. The point is this: The regulatory liability will track these funds collected for terminal net salvage and will

> ensure that when Westar dismantles existing plant to make room for additional generation, the cost of that dismantlement will not be capitalized and added to rate base.[21]

**Q. How does GAAP define a regulatory liability?**

A. As summarized earlier, SFAS No. 71 – Accounting for the Effects of Certain Types of Regulation defines regulatory liabilities from a GAAP perspective. Paragraph 11, as excerpted below, defines a regulatory liability. Paragraphs 11 and 11.b. are particularly instructive.

**SFAS No. 71 – Regulatory Liabilities[22]**

> 11. Rate actions of a regulator can impose a liability on a regulated enterprise. Such liabilities are usually obligations to the enterprise's customers. The following are the usual ways in which liabilities can be imposed and the resulting accounting:
>
> a. A regulator may require refunds to customers. ...
>
> b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the enterprise shall not recognize as revenues amounts charged pursuant to such rates. Those amounts shall be recognized as liabilities and taken to income only when associated costs are incurred.

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[21] I/M/O Westar Energy, Docket No. 05-WSEE-981-RTS, Order on Petitions for Reconsideration and Clarification, Issued February 13, 2006, p. 49.

[22] SFAS No. 71, paragraph 11. Only the first sentence of each subparagraph is included.

> c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. ...

**Q. Does KGS agree that its collections for non-legal AROs result in a regulatory liability?**

A. Yes, KGS reports a $1.7 million regulatory liability as of December 31, 2005.[23] Given that KGS can only create a regulatory liability consistent with the letter and spirit of SFAS No. 71, the Company must have determined (at least for financial reporting purposes) that, in its management's judgment, the amounts it has collected but not yet spent for costs of removal are "probable" of being credited to ratepayers through the ratemaking process. SFAS No. 71 clarifies that the phrase "credited to ratepayers" means "if those costs are not incurred, future rates will be reduced by corresponding amounts."[24]

KGS does agree that both GAAP and the SEC recognize this fact, and in order to get a "clean" audit opinion, it must report the amount <u>as a regulatory liability as long as it remains regulated, and subject to cost-based rate base/rate of return regulation.</u>

**Q. Why did you emphasize the proviso "as long as it remains regulated and subject to cost-based, rate base/rate of return regulation"?**

A. I am concerned because if KGS were to be deregulated, or if regulation were to change from a "cost-based" to some form of alternative "price-based" regulation, history tells us the Company would have every interest in immediately transferring its $1.7 million regulatory liability into its GAAP

[23] See response to CURB 175.

income. This amount could well disappear from the scene unless the KCC protects it on behalf of ratepayers. Therefore, this amount should be specifically designated as a regulatory liability for ratemaking purposes.

**Q. Why do you believe that KGS would transfer its $1.7 million non-legal regulatory liability into GAAP income?**

A. KGS will transfer the regulatory liability into GAAP income because that is what GAAP requires. If deregulated, or if regulation changes significantly, the provisions of SFAS No. 71 will no longer apply. The regulatory liability amount will flow immediately and explicitly to GAAP income, because SFAS No. 143 requires it to flow to income if it is not payable to ratepayers. This is what electric utilities did when their production plants were deregulated.

**Q. Do you have any credible evidence of such treatment?**

A. Yes, several utilities did that upon adoption of SFAS No. 143. For instance, as noted in Public Service Enterprise Group's December 31, 2003 10-K report:

> Power also had $131 million in cost of removal liabilities recorded on its Consolidated Balance Sheet, as of December 31, 2002, which did not meet the requirements of an Asset Retirement Obligation (ARO) and were therefore reversed and included in the Cumulative Effect of a Change in Accounting Principle recorded in the first quarter of 2003.[25]

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[24] SFAS No. 71, ¶11b.
[25] Public Service Enterprise Group Inc., December 31, 2003 10-K Report, p. 138.

**Q. Do you have any similar examples of other utilities doing the same thing?**

A. Yes, American Electric Power had several of its production plants deregulated. It immediately transferred $473 million from accumulated depreciation into income relating to those deregulated plants.[26]

In another example, Tucson Electric Power Company ("TEP") stated that:

> TEP had accrued $113 million for final decommissioning of its generating facilities. ... this amount was reversed for 2002 and included as part of the cumulative effect adjustment of accounting adjustment when FAS 143 was adopted on January 1, 2003.[27]

This means that TEP transferred non-legal AROs into income.

For its <u>regulated</u> operations, which include the transmission and distribution portions of its business, TEP continued to apply SFAS 71. As a result, TEP recorded the cost of removal collected for regulated non-legal AROs as a regulatory liability.

> As of December 31, 2004, TEP had accrued $67 million for the net cost of removal of the interim retirements from its transmission, distribution and general plant. As of December 31, 2003, TEP had accrued $60 million for these removal costs. The amount is recorded as a regulatory liability.[28]

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[26] AEP 2003 Annual Report to Shareholders, page 69.
[27] Tucson Electric Power Company December 31, 2004 10 K Report, page K-59.
[28] Id., page K-60.

However, TEP also reported:

> If TEP stopped applying FAS 71 to its remaining regulated operations, it would write off the related balances of its regulatory assets as an expense and its regulatory liabilities as income on its income statement.[29]

The term "write off" is a euphemism for transferring the money to income.

**Q. Is TEP aware that you have used the quotation above to make the point that given the chance a utility will transfer the regulatory liability to income?**

A. Yes, in November 2005, the Public Utilities Fortnightly published an article I wrote concerning the issues at hand in this proceeding.[30] The article included the quotation from TEP's Form 10K. Subsequently, Karen G. Kissinger, TEP's Vice President, Controller & Chief Compliance Officer responded to my article.[31] Ms. Kissinger leveled several attacks against my logic, but her last sentence corroborated the risk to ratepayers that I identified in the article. Ms. Kissinger finished her letter saying: "Ratepayers are not entitled to a refund of costs recognized to provide services they have already received."[32] That means that TEP believes that its ratepayers should pay it money in advance for future costs of removal, with no expectation of a refund or future rate decrease should TEP not use the funds for their intended purpose – in that event, they belong to TEP. KGS's ratepayers are subject to the same risks.

[29] Id. (Emphasis added.)
[30] Public Utilities Fortnightly, "Rate Base Cleansings: Rolling Over Ratepayers", November 2005, p.58.
[31] Id., April 2006.
[32] Id.

**Q. Does KGS make a similar statement regarding charging to income the amounts recorded as regulatory liabilities should it no longer be able to apply SFAS No. 71 to its operations?**

A. Yes, as quoted above from KGS's 2005 10-K Report, "these non-legal asset removal obligations should be accounted for as a regulatory liability under Statement 71."[33] The quote below demonstrates that if KGS were no longer subject to SFAS 71, it would take the regulatory liability into income.

> **Regulation** - Our intrastate natural gas transmission pipelines and distribution operations are subject to the rate regulation and accounting requirements of the OCC, KCC, RRC and various municipalities in Texas. Other transportation activities are subject to regulation by the FERC. Oklahoma Natural Gas, Kansas Gas Service, Texas Gas Service and portions of our Pipelines and Storage segment follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement 71). During the rate-making process, regulatory authorities may require us to defer recognition of certain costs to be recovered through rates over time as opposed to expensing such costs as incurred. This allows us to stabilize rates over time rather than passing such costs on to the customer for immediate recovery. Accordingly, actions of the regulatory authorities could have an affect on the amount recovered from rate payers. Any difference in the amount recoverable and the amount deferred would be recorded as income or expense at the time of the regulatory action. <u>If all or a portion of the regulated operations becomes no longer subject to the provisions of Statement 71, a write-off of regulatory assets and stranded costs may be required.</u>[34]

[33] ONEOK, Inc., December 31, 2005 10-K Report, p. 73.
[34] ONEOK, Inc., December 31, 2005 10-K Report, p. 72 (emphasis added).

**Q. Have any other industries transferred non-legal ARO amounts into income?**

A. Yes, while still regulated, the telephone industry collected substantial amounts of future cost of removal from its ratepayers through depreciation, just as KGS is proposing here. Upon deregulation and the adoption of SFAS No. 143, the major telephone companies transferred $11.5 billion from accumulated depreciation into their net income.[35]

**Q. Have any other state commissions recognized this regulatory liability?**

A. Yes, the California Public Utility Commission recently recognized the regulatory liability for Southern California Edison, stating,

> TURN's request that the balance of funds collected for cost of removal related to non-ARO assets be recognized as a regulatory liability for ratemaking purposes is reasonable and will be adopted.[36]

**<u>The KCC Should Consider Disposing of the Existing Regulatory Liability</u>**

**Q. What should the KCC do with KGS's regulatory liability on a going-forward basis?**

A. There are a number of alternatives to the treatment of the regulatory liability on a going-forward basis. The KCC could require continued maintenance as a permanent rate base offset representing customer-provided capital, or amortization back to ratepayers over some specified amortization period. I

[35] Pre-tax gains of SBC ($5.9 billion), Verizon ($3.5 billion), Qwest ($0.4 billion), BellSouth ($1.3 billion) and Sprint ($0.4 billion). See Companies' 2003 10K Reports and 2003 Annual Reports to Shareholders.

[36] Application of Southern California Edison Company, A. 04-12-014, D.06-05-016, page 204, also Finding of Fact 122.

prefer an amortization, because I do not believe KGS will ever spend all of this money on future cost of removal, and as long as the money remains in KGS's hands, it will do whatever it can to convert the regulatory liability to income. An amortization would reduce annual depreciation expense over the amortization period. At a time of ever-increasing energy prices, this would be welcome relief to KGS's customers, as well as a means to eliminate the regulatory liability.

**Q. Is the amortization a form of retroactive ratemaking?**

A. No, it is merely a reduction to depreciation expense.

**The KCC Should Change the Mechanism That Created KGS's Regulatory Liability**

**Q. How much non-legal ARO cost is included in the annual depreciation expense under KGS's proposal?**

A. As I mentioned earlier, KGS did not provide the information necessary for me to provide that amount. I am, however, able to estimate the $9.9 million of annual negative net salvage included in KGS's proposed depreciation.[37] Given that this is a net negative number, the cost of removal component is obviously much greater.

The $9.9 million can be compared to KGS's actual unadjusted $2.4 million average negative net salvage experience. Exhibit___(MJM-3) summarizes KGS's average annual net salvage experience from 2001 to 2005. It sums to $2.4 million. KGS's $9.9 million negative net salvage accrual is more than 4 times greater than KGS's actual negative net salvage. If this pattern continues, KGS's regulatory liability will continue to grow at an alarming rate.

**Q. What should the KCC do about new non-legal AROs on a going-forward basis?**

A. The solution to that problem lies in the recognition of the excess charges inherent in the depreciation mechanism that created the regulatory liability in the first place. On a going-forward basis, the KCC should change the mechanism it uses to allow KGS to collect non-legal AROs.

**Q. Is KGS's mechanism used in other jurisdictions or recognized in any texts?**

A. Yes, KGS's mechanism is, and has been, used in various jurisdictions – including Kansas. The NARUC's 1996 Public Utilities Depreciation Practices Manual also addressed, and is even read by some as endorsing KGS's approach:

> Net salvage is expressed as a percentage of plant retired by dividing the dollars of net salvage by the dollars of original cost of plant retired. <u>The goal of accounting for net salvage is to allocate the net cost of an asset to accounting periods</u>, making due allowance for net salvage, positive or negative, that will be obtained when the asset is retired. This concept carries with it the premise that property ownership includes the responsibility for the property's ultimate abandonment or removal. Hence, if current users benefit from its use, they should pay their pro rata share of the costs involved in the abandonment or removal of the property and also receive their pro rata share of the benefits of the proceeds realized.

[37] Exhibit___(MJM-4) .

> This treatment is in <u>harmony with generally accepted accounting principles</u> and tends to remove from the income statement any fluctuations caused by erratic, although necessary, abandonment and removal operations. It also has the advantage that <u>current customers pay or receive a fair share of costs</u> associated with the property devoted to their service, even though the costs may be estimated.[38]

**Q. Is KGS's approach "in harmony with generally accepted accounting principles"?**

A. No, KGS's approach is not in harmony with generally accepted accounting principles and never has been, as implicitly reaffirmed in SFAS No. 143. If NARUC were to update its 1996 manual, those words should no longer appear.

**Q. What is at the heart of NARUC's thinking in this regard?**

A. The matching principle is at the heart of NARUC's thinking. NARUC focuses on the <u>timing</u> or <u>pattern</u> of cost of removal allocation and <u>intergenerational equity</u>. Unfortunately, NARUC does not address the fundamental questions of whether a company will actually incur the costs that the KGS's approach anticipates, and the intergenerational <u>**inequity**</u> of charging these inflated amounts to ratepayers when there is some doubt that KGS will ever spend the money on cost of removal, and the inflation element is so overstated.

Again, it is worth noting that the 1996 NARUC manual pre-dates SFAS No. 143. Thus, it reflects earlier deliberations, and did not consider, or even

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[38] NARUC Manual, page 18.

know about the huge regulatory liabilities emanating from the use of KGS's approach.

**Q. Has anybody addressed these fundamental questions?**

A. Yes, FASB addressed the fundamental questions in SFAS No. 143. The matching principle is in harmony with GAAP when the future costs are genuine obligations and recognized at their fair value. However, the matching principle of accounting does not require allocation of a fallacious future expenditure to any accounting period.

NARUC focuses on an objective of achieving a particular expense recognition pattern rather than the need to recognize whether or not an actual obligation and liability exists. In paragraph B21, SFAS 143 specifically addresses the tendency to focus on the expense pattern rather than the reality of the cost, and the problems that can result:

> B21. Prior to this Statement, the objective of many accounting practices was not to recognize and measure obligations associated with the retirement of long-lived assets. Rather, the objective was to achieve a particular expense recognition pattern for those obligations over the operating life of the associated long-lived asset. Using that objective, some entities followed an approach whereby they estimated an amount that would satisfy the costs of retiring the asset and accrued a portion of that amount each period as an expense and a liability. Other entities used that objective and the provision in paragraph 37 of FASB Statement No 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, that allows them to increase periodic depreciation expense by increasing the depreciable base of a long-lived asset for an amount representing estimated asset retirement costs. Under either of those approaches, the amount of liability or

> accumulated depreciation recognized in a statement of financial position usually differs from the amount of obligation that an entity actually has incurred. In effect, by focusing on an objective of achieving a particular expense recognition pattern, accounting practices developed that disregarded or circumvented the recognition and measurement requirements of FASB Concepts Statements.[39]

KGS's approach focuses on achieving a particular expense pattern rather than "recognition and measurement requirements," that is, the reality of the cost. As NARUC recognizes, these are estimates - forecasts of future costs. However, thanks again to SFAS No. 143, we now know that TIFCA future cost of removal estimates do not meet baseline tests as legal liabilities.

**Q. Why do you say that KGS's cost of removal estimates do not meet baseline tests as liabilities?**

A. KGS acknowledges that it does not have any legal AROs. Some utilities, however, do have certain costs that meet these baseline tests. There are assets for which they have identified legal asset retirement obligations ("AROs") as defined by SFAS No. 143. For example, there are legal obligations associated with the retirement of nuclear plants. The AROs meet the definition of a liability, because "the company has a legal obligation to perform decontamination activities when the plant ceases operations. Contamination, which gives rise to the obligation, is predictable and likely of occurring and is unavoidable as a result of operating the plant. ... the

[39] Id., paragraph B21, (emphasis supplied).

obligation to perform decontamination activities at that plant results from the normal operation of the plant."[40]

On the other hand, KGS has collected, and will continue to collect, if the company has its way, estimates of future cost of removal relating to its plant for which it does not have any such legal retirement obligation. These are the non-legal AROs. KGS does not have any probable obligation to make these expenditures, as "probable" is used in SFAS No. 143. They therefore do not meet the definition of a liability.[41]

While this may sound outlandish, consider the fact that all that is necessary to create a legal obligation is for KGS to promise the KCC and the public at large that it will do the work, incur the cost, and spend the money it collects for that cost on that cost. I expect KGS will protest that it has an implicit obligation to remove most if not all of its non-legal ARO assets. If true, let KGS make such a promise and treat all of its plant as AROs. The utility seems unwilling to make such a promise.[42]

As explained earlier, FERC Order No. 631 defines KGS's future cost of removal proposals as non-legal AROs. Non-legal AROs apply to plant for

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[40] Statement of Financial Accounting Standards No. 143 ("SFAS 143"), *Accounting for Asset Retirement Obligations*, paragraph A12.

[41] Id., paragraph 4. "Liabilities are *probable* future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Probable is used with its general meaning, rather than in a specific accounting or technical sense (such as Statement 5, par.3), and refers to that which can reasonably expected or believed on a basis of available evidence or logic but neither certain nor proved (Webster's New World Dictionary, p.1132). Its inclusion in the definition is intended to acknowledge that business and other economic activities occur in an environment characterized by uncertainty in which few outcomes are certain."

[42] See response to CURB 181. Note that KGS <u>did not explicitly promise</u> to remove its non-legal ARO assets.

which KGS has no "legal obligations that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel."[43]

Non-legal AROs would become AROs, that is, liabilities to incur future removal costs if they were "probable (that which can be reasonably expected or believed on the basis of available evidence or logic but is neither certain nor proved) future sacrifices of economic benefits arising from present obligations of a particular entity to transfer or provide services to other entities in the future as a result of past transactions or events."[44] If KGS has not deemed them AROs, it is because KGS has determined that the costs are not such "probable . . . future sacrifices."

Whether these obligations exist is at best ambiguous; but "in most cases involving asset retirement obligations, the determination of whether a legal obligation exists should be unambiguous. However, in situations in which no law, statute, ordinance, or contract exists, but an entity makes a promise to a third party (which may include the public at large) about its intention to perform retirement activities, facts and circumstances need to be considered carefully in determining whether that promise has imposed a legal obligation upon the promisor under the doctrine of promissory estoppel."[45] KGS has not made any specific or unambiguous promise to the KCC or the

[43] SFAS No. 143, paragraph 2.
[44] Id., paragraph 4.
[45] Id., paragraph A3.

public at large about any intention to perform the retirement activities, or spend money, relating to non-legal AROs.

"A conditional obligation to perform a retirement activity is within the scope of SFAS No. 143" thus producing AROs. "Uncertainty about whether performance will be required does not defer the recognition of a retirement obligation; rather, that uncertainty is factored into the measurement of the fair value of the liability .... Uncertainty about performance of conditional obligations shall not prevent the determination of a reasonable estimate of fair value."[46]

Paragraph 2 of SFAS 143 "limits the obligations included within the scope to those that are unavoidable by an entity as a result of the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees."[47] Legal obligations, as used in SFAS No. 143, "encompass both legally enforceable obligations and constructive obligations."[48] The future cost of removal included in KGS's current and proposed depreciation rates is avoidable, and KGS has neither legal, nor constructive, nor conditional obligations associated with these non-legal AROs.

"Any asset retirement obligation associated with the retirement of or the retirement and replacement of a component of a larger system [interim retirements] qualifies for recognition provided that the obligation meets the

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[46] Id., paragraph A17. Notwithstanding this clear language from SFAS No. 143, KGS did not identify any conditional obligations, uncertain or not.
[47] Id., paragraph B15.

definition of a liability."[49] KGS's non-legal AROs for interim retirements (if any) do not meet the definition of a liability.

"Uncertainty about the timing of the settlement date does not change the fact that an entity has a legal obligation."[50] Even the judgmental nature of plant lives does not eliminate an ARO, and yet KGS does not have any AROs for its non-legal ARO accounts.

KGS is well aware of these SFAS No. 143 requirements regarding AROs, yet it has determined for its non-ARO assets that it does not have any obligation to remove its plant or to spend the money it collects from ratepayers for that presumed purpose. As a result, KGS has, in effect, explicitly not promised to spend the money for its intended purpose, and it has recognized that it is not even reasonable to assume that it will incur these future removal costs.[51] Given these facts, and the actual numbers I have provided to the KCC, the only reasonable conclusion is that KGS will never spend the money for cost of removal relating to non-legal AROs at the level it is charging to ratepayers.

**Q. Does the NARUC Manual recognize other net salvage approaches?**

A. Even though the NARUC Manual seems to endorse KGS's approach, it recognizes that some jurisdictions have reconsidered:

> Some commissions have abandoned the above procedure [gross salvage and cost of removal reflected in depreciation rates] and moved to current-

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[48] Id., paragraph B16.
[49] Id., paragraph B17.
[50] Id., Paragraph B19.
[51] See responses to CURB 180 and 181 .

> period accounting for gross salvage and/or cost of removal. In some jurisdictions gross salvage and cost of removal are accounted for as income and expense, respectively, when they are realized. Other jurisdictions consider only gross salvage in depreciation rates, with the cost of removal being expensed in the year incurred.[52]

The NARUC depreciation manual further opines on the underlying rationale for treating removal cost as a current-period expense, instead of incorporating it in depreciation rates:

> It is frequently the case that net salvage for a class of property is negative, that is, cost of removal exceeds gross salvage. This circumstance has increasingly become dominant over the past 20 to 30 years; in some cases negative net salvage even exceeds the original cost of plant. Today few utility plant categories experience positive net salvage; this means that most depreciation rates must be designed to recover more than the original cost of plant. The predominance of this circumstance is another reason why some utility commissions have switched to current-period accounting for gross salvage and, particularly, cost of removal.[53]

Setting aside ratemaking, one of the mechanical problems with KGS's approach is that it can result in a depreciation reserve actually exceeding the gross plant balance. That is because the depreciation rate is excessive; it is more than necessary to fully depreciate the plant. Therefore, at the end of its life, the accumulated depreciation account **exceeds** the plant account balance.

[52] NARUC Manual, page 157.
[53] Id., page 158.

**Q. Has anybody addressed this accumulated depreciation excess?**

A. Yes, FASB has also addressed accumulated reserve excesses in SFAS No. 143. Paragraph B22 says the following:

> B22. Paragraph 37 of Statement 19 states that "estimated dismantlement, restoration, and abandonment costs ... shall be taken into account in determining amortization and depreciation rates." Application of that paragraph has the effect of accruing an expense irrespective of the requirements for liability recognition in the FASB Concepts Statements. In doing so, it results in recognition of accumulated depreciation that can exceed the historical cost of a long-lived asset. The Board concluded that an entity should be precluded from including an amount for and asset retirement obligation in the depreciable base of a long-lived asset unless that amount also meets the recognition criteria in this Statement. When an entity recognizes a liability for an asset retirement obligation, it also will recognize an increase in the carrying amount of the related long-lived asset. <u>Consequently, depreciation of that asset will not result in the recognition of accumulated depreciation in excess of the historical cost of a long-lived asset</u>.[54]

As one can see from the above, the public accounting profession does not approve of depreciating an asset beyond its original cost.

**Q. Are you advocating that the KCC adopt GAAP as the single appropriate standard for ratemaking?**

A. No, GAAP does not control ratemaking, but the rationale described above is both informative and makes sense.

[54] SFAS No. 143, paragraph B22, (emphasis added).

**Q. What do you conclude?**

A. I conclude that KGS's net salvage proposals will exacerbate an already bad situation. Due to the inflationary assumptions and orders of magnitude mismatches combined with plant growth, KGS's proposals will cause the regulatory liability to continue to grow at an exponential rate. Regardless of KGS's claims otherwise, it will not spend all of that money on cost of removal, so why let it continue to grow at the expense of ratepayers? The KCC must change the procedure it uses to provide for cost of removal.

**Q. Has KGS quantified the going-forward amount of the regulatory liability for cost of removal?**

A. I do not know. We asked KGS to provide a projection of the regulatory liability, assuming its proposed depreciation rates were adopted. The Company refused to provide the projection.[55]

__**Alternatives to KGS's Approach**__

**Q. Are there any alternatives to KGS's Approach?**

A. Yes, there are alternatives to KGS's approach. Below I will briefly discuss a "cash basis" alternative, and three "accrual basis" alternatives. There are probably more alternatives but these are the ones that I believe are reasonable.

| | |
|---|---|
| Cash Basis: | - Expensing |
| Accrual Basis: | - SFAS No. 143 Fair Value Approach |
| | - Net Present Value Approach |
| | - Normalized Cost of Removal Approach |

[55] Response to CURB 176.

All of these have, in one form or another, been adopted by certain other state agencies.

**Cash Basis Alternative**

**Q. What is the cash basis alternative?**

A. The cash basis alternative removes non-legal removal and dismantlement costs from the depreciation rate process. Those costs would no longer be charged to accumulated depreciation, but instead be either capitalized or expensed. KGS allocates a portion of the cost of a replacement project to cost of removal. The allocation, like all allocations, is at least somewhat arbitrary. Thus, one component of the cash basis alternative would be to consider capitalizing the entire cost of replacements to plant in service, rather than allocating a portion to cost of removal. This would have the same effect on rate base as the Company's current accounting and would eliminate the problems created by the allocation. It would have the same effect on rate base because the current accounting debits actual cost to accumulated depreciation which increases rate base.

**Q. What if the company incurs cost of removal or dismantlement which is not accompanied by a replacement?**

A. If there is not a replacement, the cost of removal or dismantlement would be charged to operating expense.

**Q. Is it necessary, under the cash basis alternative, to have a combination of capitalization and expensing?**

A. No, KGS could charge all of its non-ARO cost of removal and dismantlement to operating expense. It would be eliminated from depreciation expense and treated as any other operating expense. If there are concerns that KGS or its customers could unduly suffer from an over-or under-estimation of this expense, the KCC could adopt balancing account treatment for the actual recorded expenses, subject to reasonableness review.

**<u>Accrual Basis Alternatives</u>**

**Q. What are the accrual basis alternatives to KGS's approach?**

A. There are three accrual basis alternatives: the SFAS No. 143 ARO fair value approach, the net present value approach, and the normalized net salvage allowance approach.

**<u>SFAS No. 143 Fair Value Accrual Approach</u>**

**Q. What is the SFAS No. 143 Fair Value Approach?**

A. The SFAS No. 143 Fair Value Approach calculates the costs for KGS 's non-legal AROs as if they were legal AROs. They are estimated at their future value and then reduced to their fair net present value. Several opening entries are required under SFAS No. 143 and FERC Order no. 631.

**<u>Net Present Value Accrual Approach</u>**

**Q. What is the net present value approach?**

A. The net present value approach is less complicated than the SFAS No. 143 fair value approach. The net present value would merely discount KGS's future cost of removal estimates back to 2003 values using an appropriate inflation factor. Alternatively, the inflation implicit in KGS's studies could be eliminated through the use of indices such as the Handy-Whitman Index.

**<u>Normalized Net Salvage Allowance Approach</u>**

**Q. Explain the normalized net salvage allowance approach.**

A. The normalized net salvage allowance approach is similar to the cash basis approach except that the annual average net salvage, which includes cost of removal, is included as a specifically identifiable amount or rate within the annual depreciation accrual. In other words, a normalized net salvage amount is still a component of the depreciation expense accrual and is credited to accumulated depreciation and actual cost of removal continues to be charged to accumulated depreciation.

**Q. Is the annual net salvage accrual a fixed amount?**

A. The annual net salvage allowance could be either a fixed amount or a rolling five-year average amount.

**Q. What do you recommend?**

A. I recommend that the regulatory liability resulting from KGS's collection of excessive non-legal ARO charges be separated from accumulated depreciation and specifically recognized by the KCC as a regulatory liability for regulatory reporting, regulatory analysis and ratemaking purposes in Kansas. On a going-forward basis, I recommend discontinuation of KGS's approach and the adoption of the normalized net salvage allowance approach.

**Q. Why do you recommend discontinuation of KGS's approach?**

A. The inflationary and orders of magnitude mismatches inherent in KGS's approach have resulted in the build-up of its' $1.7 million regulatory liability, and excessive cost of removal collections on an annual basis; but the problems do not end there.[56]

There is little, if any, relationship between the cost of removal and retirements amounts in KGS's studies. Furthermore, the data is unreliable, it is typically sporadic, and entirely subject to the control of KGS's accounting department.

**Q. Why is there little or no relationship between the cost of removal and the retirement amounts in KGS's studies?**

A. A majority of KGS's retirements result from replacements. KGS determines a need to replace assets in conjunction with its obligation to provide service. When it is determined that assets should be replaced, KGS estimates the entire replacement cost, and then allocates a portion of the replacement cost to cost of removal. Each such allocation is unique to the replacement at hand. The cost of removal in KGS's studies is a function of and derived directly from plant additions - not retirements. This is corroborated by KGS's response to CURB 131.

Most of the retirements in KGS's studies are after-the-fact accounting entries, bearing little if any relationship at all to the recorded cost of removal. It

[56] As I stated earlier, in my opinion the $1.7 million figure is understated.

is doubtful that the cost of removal in any given year relates in anyway to the retirements recorded in that year.

**Q. Why do you say the data in the KGS's studies is unreliable?**

A. Not only is the data sporadic in many instances, it is subject to the control of the accounting department. Changes in accounting procedures impact what is reported as cost of removal. Furthermore, significant portions of the recorded cost of removal are the results of allocations. All allocation factors are at least somewhat arbitrary. Consequently, it is reasonable to assume that two independent estimators reviewing the same project could reach different conclusions concerning the portion of a replacement project to be allocated to cost of removal.

**Q. Does KGS agree that its cost of removal is under the control of its accounting department?**

A. We asked that question, but KGS refused to provide an answer.[57]

**Q. Do you consider the amounts in KGS's studies to be unreliable?**

A. I assume that once allocated or assigned, KGS has properly recorded the amounts, but sporadic figures resulting from arbitrary allocations are unreliable for use in a procedure designed to collect huge amounts of money in advance from ratepayers, particularly when the Company's management will not even commit to spending the money for its ostensible purpose.

[57] Response to CURB 130.

**Q. Why do you propose the normalized net salvage approach as opposed to the other alternatives you have discussed?**

A. The cash-basis alternative might be deemed not acceptable as too large a shift from existing accounting practices. The other accrual basis alternatives involve the extrapolation of inflated figures into the future, and then the imposition of substantial judgment in the determination of inflation and discount rates.

There is no need for any of that. The normalized net salvage allowance approach eliminates the need to make predictions about inflation and discount rates. It keeps the company whole and charges its customers the correct amount. The normalized net salvage allowance approach is, in my opinion, the best approach.

**Q. Have other jurisdictions approved the normalized net salvage allowance approach?**

A. The net salvage allowance method has been adopted in several recent New Jersey rate cases in which I participated. In Rockland Electric Company's 2002 rate case, the New Jersey Board of Public Utilities ("BPU") endorsed my testimony regarding SFAS No. 143, but used a net salvage allowance based on the average net salvage over a 10-year period, as recommended by Staff, instead of the five-year average I recommended.[58] In Jersey Central Power & Light Company's 2002 rate case, the BPU agreed with me that the inclusion of net salvage in depreciation rates was inappropriate. It adopted my recommendation of a $4.8 million net salvage allowance, based on the cost of removal included in JCP&L's test year budget for transmission, distribution and general plant.[59] As agreed to in the settlement of their last rate case, Atlantic City Electric Company also uses the net salvage allowance method to accrue net salvage.[60] However, their previous rates did not have a provision for net salvage at all. In Public Service Electric and Gas Company's most recent electric case, I recommended retention of the existing 2.49 percent composite rate. Some of the parties originally stipulated to a 2.75 percent rate, but the BPU rejected the stipulation and adopted my 2.49 percent recommendation. That rate, which the Company calculated in a previous case, did not have a provision for net salvage.[61]

**Q. Have any other Commissions accepted the normalized net salvage allowance approach?**

A. Yes, the Pennsylvania Public Utility Commission uses the normalized net salvage allowance as a matter of course. Most recently, the Delaware Public Service Commission adopted the normalized net salvage allowance approach based on the five-year average for Delmarva Power & Light, the largest electric utility in that state.

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[58] I/M/O Rockland Electric Company, KCC Docket Nos. ER02080614 and ER02100724, Initial Decision, June 10, 2003 and Summary Order, July 31, 2003.

[59] I/M/O Jersey Central Power & Light Company, KCC Docket Nos. ER0208056, ER0208057, EO02070417 and ER02030173, Summary Order, August 1, 2003.

[60] I/M/O Atlantic City Electric Company, KCC Docket Nos. ER03020110, ER04060423, EO03020091 and EM02090633, Decision and Order Adopting Initial Decision and Stipulation of Settlement, May 26, 2005.

[61] I/M/O Public Service and Gas Company, KCC Docket No. ER02050303, Decision and Order, Issued April 22, 2004.

**Q. Have you incorporated a 5-year normalized net salvage allowance in your depreciation recommendations?**

A. Yes, Exhibit___(MJM-4) summarizes my recommendations. I have removed Dr. White's proposed future net salvage factors from his proposed depreciation. The result is plant-only" or "capital recovery" depreciation rates. This yields annual plant-only depreciation, based on December 31, 2005 plant balances of $25,732,350. To that amount, I have added a $2,369,227 annual net salvage allowance based on KGS's actual unadjusted experience for the five-years ending December 31, 2005. This yields total annual depreciation of $28,101,577 which is less than Dr. White's amount by $7,356,457.

**Q. Mr. Majoros, are you aware that KGS is proposing a $5 million depreciation expense decrease?**

A. Yes, I am aware of that. I recognize that the KCC may consider my adjustment to be "piling on." If the Commission decides to adopt the Company's proposal in its entirety, it should adopt my recommendations, but use Dr. White's $9,725,684 annual net salvage allowance. In that way, KGS will get the same depreciation it proposed, and ratepayers will get the protections they deserve.

**Q. Does this conclude your testimony?**

A. Yes, it does.

VERIFICATION

WASHINGTON, )

DISTRIC OF COLUMBIA ) ss:

Michael Majoros, being fully sworn upon his oath, deposes and states that he is a consultant for the Citizens' Utility Ratepayer Board, that he has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of his knowledge, information and belief.

Michael Majoros

SUBSCRIBED AND SWORN to before me this 26th day of September, 2006.

Angel L. Finck
Notary Public

My Commission expires: March 14, 2011

## Experience

### Snavely King Majoros O'Connor & Lee, Inc.

***Vice President and Treasurer (1988 to Present)***
***Senior Consultant (1981-1987)***

Mr. Majoros provides consultation specializing in accounting, financial, and management issues. He has testified as an expert witness or negotiated on behalf of clients in more than one hundred thirty regulatory federal and state regulatory proceedings involving telephone, electric, gas, water, and sewerage companies. His testimony has encompassed a wide array of complex issues including taxation, divestiture accounting, revenue requirements, rate base, nuclear decommissioning, plant lives, and capital recovery. Mr. Majoros has been responsible for developing the firm's consulting services on depreciation and other capital recovery issues into a major area of practice. In addition to traditional regulatory engagements, Mr. Majoros has also provided consultation to the U.S. Department of Justice. His expertise has been called upon to address the accounting and plant life effects of electric plant modifications in environmental proceedings and lawsuits, and to estimate economic damages suffered by black farmers in discrimination suits.

### Van Scoyoc & Wiskup, Inc., *Consultant (1978-1981)*

Mr. Majoros conducted and assisted in various management and regulatory consulting projects in the public utility field, including preparation of electric system load projections for a group of municipally and cooperatively owned electric systems; preparation of a system of accounts and reporting of gas and oil pipelines to be used by a state regulatory commission; accounting system analysis and design for rate proceedings involving electric, gas, and telephone utilities. Mr. Majoros provided onsite management accounting and controllership assistance to a municipal electric and water utility. Mr. Majoros also assisted in an antitrust proceeding involving a major electric utility. He submitted expert testimony in FERC Docket No. RP79-12 (El Paso Natural Gas Company), and he co-authored a study entitled Analysis of Staff Study on Comprehensive Tax Normalization that was submitted to FERC in Docket No. RM 80-42.

### Handling Equipment Sales Company, Inc.

***Controller/Treasurer (1976-1978)***

Mr. Majoros' responsibilities included financial management, general accounting and reporting, and income taxes.

### Ernst & Ernst, *Auditor (1973-1976)*

Mr. Majoros was a member of the audit staff where his responsibilities included auditing, supervision, business systems analysis, report preparation, and corporate income taxes.

### University of Baltimore - *(1971-1973)*

Mr. Majoros was a full-time student in the School of Business.

During this period Mr. Majoros worked consistently on a part-time basis in the following positions: Assistant Legislative Auditor – State of Maryland, Staff Accountant – Robert M. Carney & Co., CPA's, Staff Accountant – Naron & Wegad, CPA's, Credit Clerk – Montgomery Wards.

### Central Savings Bank, *(1969-1971)*

Mr. Majoros was an Assistant Branch Manager at the time he left the bank to attend college as a full-time student. During his tenure at the bank, Mr. Majoros gained experience in each department of the bank. In addition, he attended night school at the University of Baltimore.

## Education

University of Baltimore, School of Business, B.S. –
Concentration in Accounting

## Professional Affiliations

American Institute of Certified Public Accountants
Maryland Association of C.P.A.s
Society of Depreciation Professionals

## Publications, Papers, and Panels

*"Analysis of Staff Study on Comprehensive Tax Normalization," FERC Docket No. RM 80-42, 1980.*

*"Telephone Company Deferred Taxes and Investment Tax Credits – A Capital Loss for Ratepayers," Public Utility Fortnightly, September 27, 1984.*

*"The Use of Customer Discount Rates in Revenue Requirement Comparisons," Proceedings of the 25th Annual Iowa State Regulatory Conference, 1986*

*"The Regulatory Dilemma Created By Emerging Revenue Streams of Independent Telephone Companies," Proceedings of NARUC 101st Annual Convention and Regulatory Symposium, 1989.*

*"BOC Depreciation Issues in the States," National Association of State Utility Consumer Advocates, 1990 Mid-Year Meeting, 1990.*

*"Current Issues in Capital Recovery" 30th Annual Iowa State Regulatory Conference, 1991.*

*"Impaired Assets Under SFAS No. 121," National Association of State Utility consumer Advocates, 1996 Mid-Year Meeting, 1996.*

*"What's 'Sunk' Ain't Stranded: Why Excessive Utility Depreciation is Avoidable," with James Campbell, Public Utilities Fortnightly, April 1, 1999.*

*"Local Exchange Carrier Depreciation Reserve Percents," with Richard B. Lee, Journal of the Society of Depreciation Professionals, Volume 10, Number 1, 2000-2001*

*"Rolling Over Ratepayers," Public Utilities Fortnightly, Volume 143, Number 11, November, 2005.*

# Michael J. Majoros, Jr.

Federal Regulatory Agencies

| Date | Agency | Docket | Utility |
|---|---|---|---|
| | | | |
| 1979 | FERC-US 19/ | RP79-12 | El Paso Natural Gas Co. |
| 1980 | FERC-US 19/ | RM80-42 | Generic Tax Normalization |
| 1996 | CRTC-Canada 30/ | 97-9 | All Canadian Telecoms |
| 1997 | CRTC-Canada 31/ | 97-11 | All Canadian Telecoms |
| 1999 | FCC 32/ | 98-137 (Ex Parte) | All LECs |
| 1999 | FCC 32/ | 98-91 (Ex Parte) | All LECs |
| 1999 | FCC 32/ | 98-177 (Ex Parte) | All LECs |
| 1999 | FCC 32/ | 98-45 (Ex Parte) | All LECs |
| 2000 | EPA 35/ | CAA-00-6 | Tennessee Valley Authority |
| 2003 | FERC 48/ | RM02-7 | All Utilities |
| 2003 | FCC 52/ | 03-173 | All LECs |
| 2003 | FERC | ER03-409-000, ER03-666-000 | Pacific Gas and Electric Co. |
| 2005 | US District Court, Northern District of AL, Northwestern Division 55/56/57/ | CV 01-B-403-NW | Tennessee Valley Authority |
| | | | |
| | State Regulatory Agencies | | |
| | | | |
| 1982 | Massachusetts 17/ | DPU 557/558 | Western Mass Elec. Co. |
| 1982 | Illinois 16/ | ICC81-8115 | Illinois Bell Telephone Co. |
| 1983 | Maryland 8/ | 7574-Direct | Baltimore Gas & Electric Co. |
| 1983 | Maryland 8/ | 7574-Surrebuttal | Baltimore Gas & Electric Co. |
| 1983 | Connecticut 15/ | 810911 | Woodlake Water Co. |
| 1983 | New Jersey 1/ | 815-458 | New Jersey Bell Tel. Co. |
| 1983 | New Jersey 14/ | 8011-827 | Atlantic City Sewerage Co. |
| 1984 | Dist. Of Columbia 7/ | 785 | Potomac Electric Power Co. |
| 1984 | Maryland 8/ | 7689 | Washington Gas Light Co. |
| 1984 | Dist. Of Columbia 7/ | 798 | C&P Tel. Co. |
| 1984 | Pennsylvania 13/ | R-832316 | Bell Telephone Co. of PA |
| 1984 | New Mexico 12/ | 1032 | Mt. States Tel. & Telegraph |
| 1984 | Idaho 18/ | U-1000-70 | Mt. States Tel. & Telegraph |
| 1984 | Colorado 11/ | 1655 | Mt. States Tel. & Telegraph |
| 1984 | Dist. Of Columbia 7/ | 813 | Potomac Electric Power Co. |
| 1984 | Pennsylvania 3/ | R842621-R842625 | Western Pa. Water Co. |
| 1985 | Maryland 8/ | 7743 | Potomac Edison Co. |
| 1985 | New Jersey 1/ | 848-856 | New Jersey Bell Tel. Co. |
| 1985 | Maryland 8/ | 7851 | C&P Tel. Co. |
| 1985 | California 10/ | I-85-03-78 | Pacific Bell Telephone Co. |
| 1985 | Pennsylvania 3/ | R-850174 | Phila. Suburban Water Co. |

## Michael J. Majoros, Jr.

| | | | |
|---|---|---|---|
| 1985 | Pennsylvania 3/ | R850178 | Pennsylvania Gas & Water Co. |
| 1985 | Pennsylvania 3/ | R-850299 | General Tel. Co. of PA |
| 1986 | Maryland 8/ | 7899 | Delmarva Power & Light Co. |
| 1986 | Maryland 8/ | 7754 | Chesapeake Utilities Corp. |
| 1986 | Pennsylvania 3/ | R-850268 | York Water Co. |
| 1986 | Maryland 8/ | 7953 | Southern Md. Electric Corp. |
| 1986 | Idaho 9/ | U-1002-59 | General Tel. Of the Northwest |
| 1986 | Maryland 8/ | 7973 | Baltimore Gas & Electric Co. |
| 1987 | Pennsylvania 3/ | R-860350 | Dauphin Cons. Water Supply |
| 1987 | Pennsylvania 3/ | C-860923 | Bell Telephone Co. of PA |
| 1987 | Iowa 6/ | DPU-86-2 | Northwestern Bell Tel. Co. |
| 1987 | Dist. Of Columbia 7/ | 842 | Washington Gas Light Co. |
| 1988 | Florida 4/ | 880069-TL | Southern Bell Telephone |
| 1988 | Iowa 6/ | RPU-87-3 | Iowa Public Service Company |
| 1988 | Iowa 6/ | RPU-87-6 | Northwestern Bell Tel. Co. |
| 1988 | Dist. Of Columbia 7/ | 869 | Potomac Electric Power Co. |
| 1989 | Iowa 6/ | RPU-88-6 | Northwestern Bell Tel. Co. |
| 1990 | New Jersey 1/ | 1487-88 | Morris City Transfer Station |
| 1990 | New Jersey 5/ | WR 88-80967 | Toms River Water Company |
| 1990 | Florida 4/ | 890256-TL | Southern Bell Company |
| 1990 | New Jersey 1/ | ER89110912J | Jersey Central Power & Light |
| 1990 | New Jersey 1/ | WR90050497J | Elizabethtown Water Co. |
| 1991 | Pennsylvania 3/ | P900465 | United Tel. Co. of Pa. |
| 1991 | West Virginia 2/ | 90-564-T-D | C&P Telephone Co. |
| 1991 | New Jersey 1/ | 90080792J | Hackensack Water Co. |
| 1991 | New Jersey 1/ | WR90080884J | Middlesex Water Co. |
| 1991 | Pennsylvania 3/ | R-911892 | Phil. Suburban Water Co. |
| 1991 | Kansas 20/ | 176, 716-U | Kansas Power & Light Co. |
| 1991 | Indiana 29/ | 39017 | Indiana Bell Telephone |
| 1991 | Nevada 21/ | 91-5054 | Central Tele. Co. – Nevada |
| 1992 | New Jersey 1/ | EE91081428 | Public Service Electric & Gas |
| 1992 | Maryland 8/ | 8462 | C&P Telephone Co. |
| 1992 | West Virginia 2/ | 91-1037-E-D | Appalachian Power Co. |
| 1993 | Maryland 8/ | 8464 | Potomac Electric Power Co. |
| 1993 | South Carolina 22/ | 92-227-C | Southern Bell Telephone |
| 1993 | Maryland 8/ | 8485 | Baltimore Gas & Electric Co. |
| 1993 | Georgia 23/ | 4451-U | Atlanta Gas Light Co. |
| 1993 | New Jersey 1/ | GR93040114 | New Jersey Natural Gas. Co. |
| 1994 | Iowa 6/ | RPU-93-9 | U.S. West – Iowa |
| 1994 | Iowa 6/ | RPU-94-3 | Midwest Gas |
| 1995 | Delaware 24/ | 94-149 | Wilm. Suburban Water Corp. |
| 1995 | Connecticut 25/ | 94-10-03 | So. New England Telephone |
| 1995 | Connecticut 25/ | 95-03-01 | So. New England Telephone |
| 1995 | Pennsylvania 3/ | R-00953300 | Citizens Utilities Company |
| 1995 | Georgia 23/ | 5503-0 | Southern Bell |

## Michael J. Majoros, Jr.

| | | | |
|---|---|---|---|
| 1996 | Maryland 8/ | 8715 | Bell Atlantic |
| 1996 | Arizona 26/ | E-1032-95-417 | Citizens Utilities Company |
| 1996 | New Hampshire 27/ | DE 96-252 | New England Telephone |
| 1997 | Iowa 6/ | DPU-96-1 | U S West – Iowa |
| 1997 | Ohio 28/ | 96-922-TP-UNC | Ameritech – Ohio |
| 1997 | Michigan 28/ | U-11280 | Ameritech – Michigan |
| 1997 | Michigan 28/ | U-112 81 | GTE North |
| 1997 | Wyoming 27/ | 7000-ztr-96-323 | US West – Wyoming |
| 1997 | Iowa 6/ | RPU-96-9 | US West – Iowa |
| 1997 | Illinois 28/ | 96-0486-0569 | Ameritech – Illinois |
| 1997 | Indiana 28/ | 40611 | Ameritech – Indiana |
| 1997 | Indiana 27/ | 40734 | GTE North |
| 1997 | Utah 27/ | 97-049-08 | US West – Utah |
| 1997 | Georgia 28/ | 7061-U | BellSouth – Georgia |
| 1997 | Connecticut 25/ | 96-04-07 | So. New England Telephone |
| 1998 | Florida 28/ | 960833-TP et. al. | BellSouth – Florida |
| 1998 | Illinois 27/ | 97-0355 | GTE North/South |
| 1998 | Michigan 33/ | U-11726 | Detroit Edison |
| 1999 | Maryland 8/ | 8794 | Baltimore Gas & Electric Co. |
| 1999 | Maryland 8/ | 8795 | Delmarva Power & Light Co. |
| 1999 | Maryland 8/ | 8797 | Potomac Edison Company |
| 1999 | West Virginia 2/ | 98-0452-E-GI | Electric Restructuring |
| 1999 | Delaware 24/ | 98-98 | United Water Company |
| 1999 | Pennsylvania 3/ | R-00994638 | Pennsylvania American Water |
| 1999 | West Virginia 2/ | 98-0985-W-D | West Virginia American Water |
| 1999 | Michigan 33/ | U-11495 | Detroit Edison |
| 2000 | Delaware 24/ | 99-466 | Tidewater Utilities |
| 2000 | New Mexico 34/ | 3008 | US WEST Communications, Inc. |
| 2000 | Florida 28/ | 990649-TP | BellSouth -Florida |
| 2000 | New Jersey 1/ | WR30174 | Consumer New Jersey Water |
| 2000 | Pennsylvania 3/ | R-00994868 | Philadelphia Suburban Water |
| 2000 | Pennsylvania 3/ | R-0005212 | Pennsylvania American Sewerage |
| 2000 | Connecticut 25/ | 00-07-17 | Southern New England Telephone |
| 2001 | Kentucky 36/ | 2000-373 | Jackson Energy Cooperative |
| 2001 | Kansas 38/39/40/ | 01-WSRE-436-RTS | Western Resources |
| 2001 | South Carolina 22/ | 2001-93-E | Carolina Power & Light Co. |
| 2001 | North Dakota 37/ | PU-400-00-521 | Northern States Power/Xcel Energy |
| 2001 | Indiana 29/41/ | 41746 | Northern Indiana Power Company |
| 2001 | New Jersey 1/ | GR01050328 | Public Service Electric and Gas |
| 2001 | Pennsylvania 3/ | R-00016236 | York Water Company |
| 2001 | Pennsylvania 3/ | R-00016339 | Pennsylvania America Water |
| 2001 | Pennsylvania 3/ | R-00016356 | Wellsboro Electric Coop. |
| 2001 | Florida 4/ | 010949-EL | Gulf Power Company |
| 2001 | Hawaii 42/ | 00-309 | The Gas Company |
| 2002 | Pennsylvania 3/ | R-00016750 | Philadelphia Suburban |

## Michael J. Majoros, Jr.

| | | | |
|---|---|---|---|
| 2002 | Nevada 43/ | 01-10001 &10002 | Nevada Power Company |
| 2002 | Kentucky 36/ | 2001-244 | Fleming Mason Electric Coop. |
| 2002 | Nevada 43/ | 01-11031 | Sierra Pacific Power Company |
| 2002 | Georgia 27/ | 14361-U | BellSouth-Georgia |
| 2002 | Alaska 44/ | U-01-34,82-87,66 | Alaska Communications Systems |
| 2002 | Wisconsin 45/ | 2055-TR-102 | CenturyTel |
| 2002 | Wisconsin 45/ | 5846-TR-102 | TelUSA |
| 2002 | Vermont 46/ | 6596 | Citizen's Energy Services |
| 2002 | North Dakota 37/ | PU-399-02-183 | Montana Dakota Utilities |
| 2002 | Kansas 38/ | 02-MDWG-922-RTS | Midwest Energy |
| 2002 | Kentucky 36/ | 2002-00145 | Columbia Gas |
| 2002 | Oklahoma 47/ | 200200166 | Reliant Energy ARKLA |
| 2002 | New Jersey 1/ | GR02040245 | Elizabethtown Gas Company |
| 2003 | New Jersey 1/ | ER02050303 | Public Service Electric and Gas Co. |
| 2003 | Hawaii 42/ | 01-0255 | Young Brothers Tug & Barge |
| 2003 | New Jersey 1/ | ER02080506 | Jersey Central Power & Light |
| 2003 | New Jersey 1/ | ER02100724 | Rockland Electric Co. |
| 2003 | Pennsylvania 3/ | R-00027975 | The York Water Co. |
| 2003 | Pennsylvania /3 | R-00038304 | Pennsylvania-American Water Co. |
| 2003 | Kansas 20/ 40/ | 03-KGSG-602-RTS | Kansas Gas Service |
| 2003 | Nova Scotia, CN 49/ | EMO NSPI | Nova Scotia Power, Inc. |
| 2003 | Kentucky 36/ | 2003-00252 | Union Light Heat & Power |
| 2003 | Alaska 44/ | U-96-89 | ACS Communications, Inc. |
| 2003 | Indiana 29/ | 42359 | PSI Energy, Inc. |
| 2003 | Kansas 20/ 40/ | 03-ATMG-1036-RTS | Atmos Energy |
| 2003 | Florida 50/ | 030001-E1 | Tampa Electric Company |
| 2003 | Maryland 51/ | 8960 | Washington Gas Light |
| 2003 | Hawaii 42/ | 02-0391 | Hawaiian Electric Company |
| 2003 | Illinois 28/ | 02-0864 | SBC Illinois |
| 2003 | Indiana 28/ | 42393 | SBC Indiana |
| 2004 | New Jersey 1/ | ER03020110 | Atlantic City Electric Co. |
| 2004 | Arizona 26/ | E-01345A-03-0437 | Arizona Public Service Company |
| 2004 | Michigan 27/ | U-13531 | SBC Michigan |
| 2004 | New Jersey 1/ | GR03080683 | South Jersey Gas Company |
| 2004 | Kentucky 36/ | 2003-00434,00433 | Kentucky Utilities, Louisville Gas & Electric |
| 2004 | Florida 50/ 54/ | 031033-EI | Tampa Electric Company |
| 2004 | Kentucky 36/ | 2004-00067 | Delta Natural Gas Company |
| 2004 | Georgia 23/ | 18300, 15392, 15393 | Georgia Power Company |
| 2004 | Vermont 46/ | 6946, 6988 | Central Vermont Public Service Corporation |
| 2004 | Delaware 24/ | 04-288 | Delaware Electric Cooperative |
| 2004 | Missouri 58/ | ER-2004-0570 | Empire District Electric Company |
| 2005 | Florida 50/ | 041272-EI | Progress Energy Florida, Inc. |
| 2005 | Florida 50/ | 041291-EI | Florida Power & Light Company |

## Michael J. Majoros, Jr.

| | | | |
|---|---|---|---|
| 2005 | California 59/ | A.04-12-014 | Southern California Edison Co. |
| 2005 | Kentucky 36/ | 2005-00042 | Union Light Heat & Power |
| 2005 | Florida 50/ | 050045 & 050188-EI | Florida Power & Light Co. |
| 2005 | Kansas 38/ 40/ | 05-WSEE-981-RTS | Westar Energy, Inc. |
| 2006 | Delaware 24/ | 05-304 | Delmarva Power & Light Company |
| 2006 | California 59/ | A.05-12-002 | Pacific Gas & Electric Co. |
| 2006 | New Jersey 1/ | GR05100845 | Public Service Electric and Gas Co. |

## Michael J. Majoros, Jr.

### PARTICIPATION AS NEGOTIATOR IN FCC TELEPHONE DEPRECIATION RATE REPRESCRIPTION CONFERENCES

| COMPANY | YEARS | CLIENT |
|---|---|---|
| Diamond State Telephone Co. 24/ | 1985 + 1988 | Delaware Public Service Comm |
| Bell Telephone of Pennsylvania 3/ | 1986 + 1989 | PA Consumer Advocate |
| Chesapeake & Potomac Telephone Co. - Md. 8/ | 1986 | Maryland People's Counsel |
| Southwestern Bell Telephone – Kansas 20/ | 1986 | Kansas Corp. Commission |
| Southern Bell – Florida 4/ | 1986 | Florida Consumer Advocate |
| Chesapeake & Potomac Telephone Co.-W.Va. 2/ | 1987 + 1990 | West VA Consumer Advocate |
| New Jersey Bell Telephone Co. 1/ | 1985 + 1988 | New Jersey Rate Counsel |
| Southern Bell - South Carolina 22/ | 1986 + 1989 + 1992 | S. Carolina Consumer Advocate |
| GTE-North – Pennsylvania 3/ | 1989 | PA Consumer Advocate |

## Michael J. Majoros, Jr.

### PARTICIPATION IN PROCEEDINGS WHICH WERE SETTLED BEFORE TESTIMONY WAS SUBMITTED

| STATE | DOCKET NO. | UTILITY |
|---|---|---|
| Maryland 8/ | 7878 | Potomac Edison |
| Nevada 21/ | 88-728 | Southwest Gas |
| New Jersey 1/ | WR90090950J | New Jersey American Water |
| New Jersey 1/ | WR900050497J | Elizabethtown Water |
| New Jersey 1/ | WR91091483 | Garden State Water |
| West Virginia 2/ | 91-1037-E | Appalachian Power Co. |
| Nevada 21/ | 92-7002 | Central Telephone - Nevada |
| Pennsylvania 3/ | R-00932873 | Blue Mountain Water |
| West Virginia 2/ | 93-1165-E-D | Potomac Edison |
| West Virginia 2/ | 94-0013-E-D | Monongahela Power |
| New Jersey 1/ | WR94030059 | New Jersey American Water |
| New Jersey 1/ | WR95080346 | Elizabethtown Water |
| New Jersey 1/ | WR95050219 | Toms River Water Co. |
| Maryland 8/ | 8796 | Potomac Electric Power Co. |
| South Carolina 22/ | 1999-077-E | Carolina Power & Light Co. |
| South Carolina 22/ | 1999-072-E | Carolina Power & Light Co. |
| Kentucky 36/ | 2001-104 & 141 | Kentucky Utilities, Louisville Gas and Electric |
| Kentucky 36/ | 2002-485 | Jackson Purchase Energy Corporation |
| Florida 50/ 54/ | 030157-EI | Progress Energy Florida |

# Michael J. Majoros, Jr.

Clients

| | |
|---|---|
| 1/ New Jersey Rate Counsel/Advocate | 33/ Michigan Attorney General |
| 2/ West Virginia Consumer Advocate | 34/ New Mexico Attorney General |
| 3/ Pennsylvania OCA | 35/ Environmental Protection Agency Enforcement Staff |
| 4/ Florida Office of Public Advocate | 36/ Kentucky Attorney General |
| 5/ Toms River Fire Commissioner's | 37/ North Dakota Public Service Commission |
| 6/ Iowa Office of Consumer Advocate | 38/ Kansas Industrial Group |
| 7/ D.C. People's Counsel | 39/ City of Witchita |
| 8/ Maryland's People's Counsel | 40/ Kansas Citizens' Utility Rate Board |
| 9/ Idaho Public Service Commission | 41/ NIPSCO Industrial Group |
| 10/ Western Burglar and Fire Alarm | 42/ Hawaii Division of Consumer Advocacy |
| 11/ U.S. Dept. of Defense | 43/ Nevada Bureau of Consumer Protection |
| 12/ N.M. State Corporation Comm. | 44/ GCI |
| 13/ City of Philadelphia | 45/ Wisc. Citizens' Utility Rate Board |
| 14/ Resorts International | 46/ Vermont Department of Public Service |
| 15/ Woodlake Condominium Association | 47/ Oklahoma Corporation Commission |
| 16/ Illinois Attorney General | 48/ National Association of Utility Consumer Advocates |
| 17/ Mass Coalition of Municipalities | 49/ Nova Scotia Utility and Review Board |
| 18/ U.S. Department of Energy | 50/ Florida Office of Public Counsel |
| 19/ Arizona Electric Power Corp. | 51/ Maryland Public Service Commission |
| 20/ Kansas Corporation Commission | 52/ MCI |
| 21/ Public Service Comm. – Nevada | 53/ Transmission Agency of Northern California |
| 22/ SC Dept. of Consumer Affairs | 54/ Florida Industrial Power Users Group |
| 23/ Georgia Public Service Comm. | 55/ Sierra Club |
| 24/ Delaware Public Service Comm. | 56/ Our Children's Earth Foundation |
| 25/ Conn. Ofc. Of Consumer Counsel | 57/ National Parks Conservation Association, Inc. |
| 26/ Arizona Corp. Commission | 58/ Missouri Office of the Public Counsel |
| 27/ AT&T | 59/ The Utility Reform Network |
| 28/ AT&T/MCI | |
| 29/ IN Office of Utility Consumer Counselor | |
| 30/ Unitel (AT&T – Canada) | |
| 31/ Public Interest Advocacy Centre | |
| 32/ U.S. General Services Administration | |

**Citizens Utility Ratepayer Board**
Docket Number 06-KGSG-1209-RTS
Information Request

Data Request: CURB 137::Net Salvage Estimates
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: Sep 06, 2006
Date Information Needed: Sep 20, 2006
Requested By: Springe, David



| |
|---|
| Do Dr. White's net salvage estimates for mass property accounts incorporate inflation expected to be incurred in the future? If yes, provide the net present value of all of these ratios. |

Dr. White's net salvage estimates properly include a relative measurement of cost of removal associated with plant retired from service. Absent a per-unit net salvage analysis, it is not posible to calculate the present value of future inflation from historical ratios. Dr. White did not conduct a per-unit net salvage analysis.

Prepared By: White, Ron

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Larry S. Willer

Date: 9/20/06

**Citizens Utility Ratepayer Board**
Docket Number 06-KGSG-1209-RTS
Information Request

Data Request: CURB 131::Company Policy
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: Sep 06, 2006
Date Information Needed: Sep 20, 2006
Requested By: Springe, David



| |
|---|
| Provide all manuals, guidelines, memoranda or other documentation that deals with the Company's policies on the assignment of capital costs and net salvage with regard to the replacement of retired plant. Also, provide a sample workorder for a replacement project, showing these cost assignments. |

Company Policy - Removal of a Property Unit: When an item of property is removed, sold, lost or abandoned which entails a property unit, a retirement job order should be prepared to retire and remove the orginal cost from the plant investment. The cost to dismantle, remove and dispose of the property should be charged to account 108 - RWIP (Task 2XXXX). If any proceeds are received from the sale of the disposed property it should be credited to salvage under the retirement job order.

The attached file [CURB DR 131.pdf] contains a job order for replacement project example.

Prepared By: Whitlock, Don

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Larry S. Willer

Date: 9/20/06

**Unitization Results**

Unit Item: PIPE - MASS 2" PL

| | |
|---|---|
| Company: 051 Kansas Gas Service | Retirement Unit: PIPE - MASS 2" PL |
| GL Account: 1010000 Plant In Service | Property Group: Pipe |
| Account: 376.0 - Mains | Sub Account: 376.0 - Mains |
| Work Order: 051.054.3641.010150 | Location: M9999.072005 Unspecified Location |
| Type: Addition | Quantity: 500, FT |

| | | | | |
|---|---|---|---|---|
| Allocated Materials | A/G Labor Overhead | Allocated | $986.02 | 0.0000 |
| Allocated AFUDC Debt | AFUDC Debt | Allocated | $7.98 | 0.0000 |
| Allocated Other Directs | Company Labor | Allocated | $1,131.04 | 0.0000 |
| Allocated Materials | Labor Overhead - Attends | Allocated | $627.73 | 0.0000 |
| Allocated Materials | Stores Material Issues | Allocated | $474.12 | 0.0000 |
| Allocated Materials | Stores Material Returns | Allocated | ($59.10) | 0.0000 |
| Allocated Materials | Stores Overhead | Allocated | $165.11 | 0.0000 |
| Allocated Materials | Vehicle Allocation | Allocated | $336.25 | 0.0000 |
| | | | $3,669.15 | 0.0000 |
| | | Avg. Cost: | $7.34 | |

9.45%
8.63%
3669.15
346.69
4015.84

| | | |
|---|---|---|
| Total Additions: | $3,669.15 | 0.0000 |

Unit Item: PIPE, GAS-LINES/MAINS/SERV-STEEL 2 IN 7/1/2005 00:00:00

| | |
|---|---|
| Company: 051 Kansas Gas Service | Retirement Unit: PIPE - MASS 2" ST |
| GL Account: 1010000 Plant In Service | Property Group: Pipe |
| Account: 376.0 - Mains | Sub Account: 376.0 - Mains |
| Work Order: 051.054.3641.010150 | Location: M9999.777777 Unspecified Location |
| Type: Retirement | Quantity: PREVIOUSLY RETIRED (Quantity = 500) |

| | | | | |
|---|---|---|---|---|
| PIPE, GAS-LINES/MAINS/SERV-STEEL- | Original Cost Retirement | Directly Assigned | $219.77 | 500.0000 |
| Allocated Removal/Salvage | A/G Labor Overhead | Allocated | $93.28 | 0.0000 |
| Allocated Removal/Salvage | Company Labor | Allocated | $142.32 | 0.0000 |
| Allocated Removal/Salvage | Labor Overhead - Attends | Allocated | $78.99 | 0.0000 |
| Allocated Removal/Salvage | Vehicle Allocation | Allocated | $32.10 | 0.0000 |
| | | | $346.69 | 0.0000 |

346.69 / 219.77 = 157.75%

| | | |
|---|---|---|
| Total Retirements: | $219.77 | 0.0000 |
| Total COR: | $346.69 | |
| Total Salvage: | $0.00 | |

| | | |
|---|---|---|
| Work Order Total: | $4,015.84 | 0.0000 |



7/29/2005

# COMPLETION REPORT

FORM 766-K (01-98)
Estimate Number: 2005003131

**FINAL**

☐ Confirming

JOB ORDER NUMBER: 051054364101 0150

'R
IMBER

ITLE: Tescott

JOB DESCRIPTION: REPLACE 2" MAIN @ 312 KANSAS S. TO 3RD

| QUANTITY | UOM | DESCRIPTION | INST | SALV | ABAN | REM | FERC | PROPERTY |
|---|---|---|---|---|---|---|---|---|
| | | **INSTALLED FACILITIES** | | | | | | |
| 3 | EA | ELBOW-BUTT FUSION, 2", 90 DEGREE, MD PE 2406 | I | | | | 37600 | |
| 2 | EA | FITTING-TRANSITION, 2" WELD X 2" BUTT FUSION, MD, 2406 | I | | | | | |
| 2 | EA | TEE-WD STOP, 2", 3-WAY, SCFD WD THRD CAP | I | | | | 37600 | |
| 1 | EA | ANODE-ZINC, BARE, 3/4 LB, WITH 2" CONNECTORS | I | | | | 37600 | |
| 500 | FT | PIPE-PE 2406, 2" IPS, .216" WALL, SDR11, YELLOW, MADE FROM TR 418, GULF 9300T, O | I | | | | | 1590020 |
| | | **ABANDON FACILITIES** | | | | | | |
| 500 | FT | RETIRE-PIPE-BARE STEEL 2 IN ( Orig WO = N/A / 1931 ) | | | X | | | 1592020 |

DESCRIBE WORK COMPLETED

INSTALL 500' 2" PE GAS MAIN AT 312 KANSAS THEN SOUTH
TO 3RD ST.. DUE TO LEAKAGE

ARKS

THIS JO IS TO INSTALL 500' 2" PE GAS MAIN STARTING AT 312 KANSAS
HEADING SOUTH TO 3RD ST. - TESCOTT, KS
REPLACE 2 SERVICES

RETIRE 2" BS MAIN
VINTAGE 1931

| LOCATION (QTR.,SEC.,TWP.,RGE.) | AD VALOREM REF NO | REGULATOR STATION NO | CITY/COUNTY |
|---|---|---|---|
| 1/4NE-S16-T12S-R05W | 072006000 | | TESCOTT / OTTAWA |

| MM/YYYY OF LAST ENTRY | NET INVESTMENT / NET COST | CURRENT EXPENDITURES | PERCENT DIFFERENCE | CONTRACT NO |
|---|---|---|---|---|
| 06/2005 | $5,437.25 / $5,437.25 | $2,126.00 | -60.90% / -60.90% | |

CONTRACTOR: KANSAS GAS SERVICE
INSPECTOR OR FOREMAN: MARCIE SCARROW

| TYPE OF SOIL | TOTAL FEET INSERTED | TOTAL FEET BORED | TOTAL SQ YDS PAVING CUTS |
|---|---|---|---|
| CLAY | | | |

PIPE SIZE & KIND: 2 MDPE
DEPTH: 32"

CATHODIC PROTECTION
INSULATING FITTING: ☐ YES ☒ NO
CURRENT SUPPLY: ☒ ANODE ☐ RECTIFIER

REASON(S) FOR UNDER- OR OVERRUN
TOOK LESS TIME THAN ESTIMATED

TEST DATA

| MEDIUM | | PRESSURE | DURATION | LEAKS & FAILURES NO | TYPE | HOW REPAIRED |
|---|---|---|---|---|---|---|
| | X | BEGIN PSIG 100 | 04/29/05 0900 | 0 | | |
| WATER | | END PSIG 100 | 04/29/05 1000 | 0 | | |
| OTHER | | | | 0 | | |

WELDER/FUSION TECHNICIAN NAME: JOHN KRIEGBAUM
PRESSURE TEST BY: MARCIE SCARROW

PREPARER: DEBBIE REINBOLD
PH# (785) 822-3567 Ext( ) DATE 06/02/05
APPROVED BY: Tom Ullemeier

| | CONSTRUCTION JOB | RETIREMENT JOB |
|---|---|---|
| DATE STARTED | 04/26/05 | 04/28/05 |
| DATE COMPLETED | 04/26/05 | 04/28/05 |
| MAN HRS WORKED | 47 HRS | 6 HRS |

*End of Completion Report*

ORIGINAL

APPROVED

# CAPITAL JOB ORDER

FORM 765-K (11-97)
Estimate Number: 2005003131

☐ Reimbursable
☒ Area Approval
☐ District Approval
☐ General Office Approval

Job Order No.
051.054.3641.XXXXXX
010150

| | |
|---|---|
| Tescott | Job Description: REPLACE 2" MAIN @ 312 KANSAS S. TO 3RD |

Scope Of Work
INSTALL 300' 2" PE GAS MAIN AT 312 KANSAS THEN SOUTH TO 3RD ST.. DUE TO LEAKAGE

| Date Prepared | Tech ID | District/Area | Contributor's Name (Attach Agreement) |
|---|---|---|---|
| 04/05/05 | OKE03146 | WESTERN / SALINA | |

| Orig JO or Acquisition (Year) | Related JO Nos. | Connecting JO Nos. |
|---|---|---|
| N/A 1931 | | |

| Atlas Pg. | City/County | Location (Qtr., Sec., Twp., Rge.) | Grid No. | MR No. |
|---|---|---|---|---|
| 736-3-A | TESCOTT / OTTAWA | 1/4NE-S16-T12S-R05W | DEBBIE R | |

| Pre-Const Permits | US Hwy. | St. Hwy. | Co. Rd. | RR Cross | Environ. | R/W | Survey | KCC | Ad Valorem |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | 072006000 |

| | | | | | | | Total Feet |
|---|---|---|---|---|---|---|---|
| Pipe Size & Kind | 2 MDPE | | | | | | |
| Install | 300 | | | | | | 300 |
| Pipe Size & Kind | | 2 BS | | | | | |
| Abandon/Salvaged | | 300 | | | | | 300 |
| Min. Test Pressure | | | | | | | Const. Cost/Ft. |
| Test Medium | | | | | | | 16.94 |
| Test Duration | | | | | | | Class |

| PRESSURE DATA | Design | Actual | Allow |
|---|---|---|---|
| | 66# | 15# | 25# |

| Pressure & Capacity | Load MCF/H Minimum | Load MCF/H Maximum | Capacity MCF/H | Upstream Pressure Minimum | Upstream Pressure Maximum | Downstream Pressure |
|---|---|---|---|---|---|---|
| nt | | | | | | |
| ed | | | | | | |

| | RETIREMENT COST | CONSTRUCTION COST |
|---|---|---|
| Material Amt | 0 | 415 |
| Stores Exp-45% | 0 | 187 |
| Purchase Material | 0 | 0 |
| Co. Const. Lab | 142 | 1,694 |
| Other Co. Labor | 0 | 0 |
| Total Co. Labor | 142 | 1,694 |
| Ind. Labor-55.5% | 79 | 940 |
| Vehicle Costs | 38 | 460 |
| R/W & Damages | 0 | 0 |
| Pvg. Repairs | 0 | 0 |
| Contract Costs | 0 | 0 |
| Contract S/Tax-0% | 0 | 0 |
| Contract Costs-Ex | 0 | 0 |
| | 0 | 0 |
| Subtotal | *259* | *3,695* |
| Salvage | 0 | |
| Const Over-37.5% | 97 | 1,386 |
| Net Cost | *356* | *5,081* |
| Deposit/Contrib. | 0 | 0 |
| Net Invesments | *356* | *5,081* |

| | QUANTITY | TOTAL COST |
|---|---|---|
| Services | | |
| Month Scheduled | | |

## MATERIALS

| Est. Quantity | Unit Price | Amount | Material Items |
|---|---|---|---|
| | | | **INSTALLED FACILITIES** |
| 1 | 46.41 | 46 | ANODE-MAGNESIUM, PACKAGED 17 LB, 10 FT LEAD, D3 HIGH POT |
| | | 119 | MISCELLANEOUS MATERIAL |
| 3 | 1.94 | 6 | ELBOW-BUTT FUSION, 2", 90 DEGREE, MD PE 2406 |
| 2 | 16.00 | 32 | FITTING-TRANSITION, 2" WELD X 2" BUTT FUSION, MD, 2406 |
| 2 | 46.85 | 94 | TEE-WD STOP, 2", 3-WAY, SCFD WD THRD CAP |
| 1 | 1.31 | 1 | ANODE-ZINC, BARE, 3/4 LB, WITH 2" CONNECTORS |
| 300 | 0.39 | 116 | PIPE-PE 2406, 2" IPS, .216" WALL, SDR11, YELLOW, MADE FROM TR 418, GULF 9300T, O |
| | | | **ABANDON FACILITIES** |
| 300 | | 0 | RETIRE-PIPE-BARE STEEL 2 IN ( Orig WO = N/A / 1931 ) |
| | | | **REMARKS** |
| | | | **THIS JO IS TO INSTALL 300' 2" PE GAS MAIN STARTING AT 312 KANSAS** |
| | | | **HEADING SOUTH TO 3RD ST. - TESCOTT, KS** |
| | | | **REPLACE 2 SERVICES** |
| | | | **RETIRE 2" BS MAIN** |
| | | | **VINTAGE 1931** |
| | TOTAL | 415 | |

OVALS/DATE

4/6/05 TH 4-6-05 4/12/05

**Kansas Gas Service**

**5-Year Average Net Salvage Experience**

| Year | Gross Salvage Code 54 | Gross Salvage Code 50 | Cost of Removal Code 51 | Net Salvage Adjusted 1/ | Net Salvage Unadjusted |
|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e)=(c)-(d) | (f)=(b)+(c)-(d) |
| 2001 | - | 109,791 | 1,326,908 | (1,217,117) | (1,217,117) |
| 2002 | 264,010 | 33,380 | 2,429,695 | (2,396,314) | (2,132,305) |
| 2003 | 2,091,056 | - | 3,511,515 | (3,511,515) | (1,420,459) |
| 2004 | 1,161,123 | 2,301 | 5,312,059 | (5,309,758) | (4,148,635) |
| 2005 | 333,805 | 667,470 | 3,928,895 | (3,261,426) | (2,927,620) |
| 5-Year Total | 3,849,993 | 812,943 | 16,509,072 | (15,696,130) | (11,846,136) |
| 5-Year Avg. | 769,999 | 162,589 | 3,301,814 | (3,139,226) | (2,369,227) |

1/ Excludes all Code 54 Gross Salvage.

Source: Response to CURB-111.

**Kansas Gas Service**

**Calculation of Depreciation Rates and Accruals**
**As of December 31, 2005**
**Based on Company's Parameters, No Future Net Salvage and COR Reserve Removed**

| | Account | 12/31/05 Plant Balance | Accumulated Depreciation | Life/ Survivor Curve | Average Remaining Life | Future Net Salvage | Annual Depreciation Rate | Annual Depreciation Accrual |
|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h)=(g)*(b) |
| **TRANSMISSION PLANT** | | | | | | | | |
| 365.20 | Rights of Way | 10,119,694 | 2,036,449 | 70 R1.5 | 62.91 | 0% | 1.27% | 128,520 |
| 366.10 | Compressor Station Structures | 4,038,803 | 1,515,357 | 42 L1.5 | 30.02 | 0% | 2.08% | 84,007 |
| 366.20 | Meas. and Reg. Station Structures | 1,257,571 | 588,216 | 55 S1.5 | 39.81 | 0% | 1.34% | 16,851 |
| 367.00 | Mains | 147,880,397 | 56,348,506 | 53 S0 | 42.25 | 0% | 1.47% | 2,173,842 |
| 368.00 | Compressor Station Equipment | 20,889,103 | 8,538,435 | 42 R1 | 30.78 | 0% | 1.92% | 401,071 |
| 369.00 | Meas. and Reg. Station Equipment | 13,189,892 | 2,698,282 | 45 R0.5 | 39.39 | 0% | 2.02% | 266,436 |
| **Total Transmission Plant** | | 197,375,460 | 71,725,246 | | | | 1.56% | 3,070,727 |
| **DISTRIBUTION PLANT** | | | | | | | | |
| 374.20 | Rights of Way | 1,230,558 | 271,243 | 70 R1.5 | 60.55 | 0% | 1.29% | 15,874 |
| 375.00 | Structures and Improvements | 362,713 | 90,758 | 25 L0 | 19.94 | 0% | 3.76% | 13,638 |
| 376.10 | Mains - Metallic | 258,294,042 | 80,644,546 | 70 R1.5 | 55.42 | 0% | 1.24% | 3,202,846 |
| 376.20 | Mains - Plastic | 214,445,982 | 68,211,914 | 45 R2.5 | 35.95 | 0% | 1.90% | 4,074,474 |
| 378.00 | Meas. and Reg. Station Equip. - General | 17,176,759 | 6,267,912 | 45 L1.5 | 34.75 | 0% | 1.83% | 314,335 |
| 379.00 | Meas. and Reg. Station Equip. - City Gate | 5,716,674 | 2,333,398 | 55 R2 | 40.76 | 0% | 1.45% | 82,892 |
| 380.10 | Services - Metallic | 33,180,615 | 8,900,335 | 45 L1 | 28.34 | 0% | 2.58% | 856,060 |
| 380.20 | Services - Plastic | 274,659,331 | 129,795,497 | 40 S3 | 27.89 | 0% | 1.89% | 5,191,061 |
| 381.00 | Meters | 67,622,824 | 26,838,413 | 38 R3 | 28.4 | 0% | 2.12% | 1,433,604 |
| 382.00 | Meter Installations | 63,633,947 | 17,293,504 | 45 R1.5 | 36.83 | 0% | 1.98% | 1,259,952 |
| 383.00 | House Regulators and Installations | 13,590,288 | 6,594,945 | 55 R3 | 38.2 | 0% | 1.35% | 183,469 |
| 386.00 | Other Property - Customer Premises | 224,125 | 53,056 | 10 S3 | 8.5 | 0% | 8.98% | 20,126 |
| **Total Distribution Plant** | | 950,137,858 | 347,295,522 | | | | 1.75% | 16,648,331 |

**Kansas Gas Service**

**Calculation of Depreciation Rates and Accruals**
**As of December 31, 2005**
**Based on Company's Parameters, No Future Net Salvage and COR Reserve Removed**

| | Account | 12/31/05 Plant Balance | Accumulated Depreciation | Life/ Survivor Curve | Average Remaining Life | Future Net Salvage | Annual Depreciation Rate | Annual Depreciation Accrual |
|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h)=(g)*(b) |
| **GENERAL PLANT** | | | | | | | | |
| | **Depreciable** | | | | | | | |
| 390.10 | General Structures | 21,475,552 | 3,807,409 | 55 R0.5 | 46.9 | 0% | 1.75% | 375,822 |
| 392.00 | Transportation Equipment | 14,694,213 | 6,964,159 | 10 L1.5 | 5.73 | 0% | 9.18% | 1,348,929 |
| 396.00 | Power Operated Equipment | 8,282,226 | 3,662,282 | 10 L3 | 5.75 | 0% | 9.70% | 803,376 |
| 397.00 | Communication Equipment | 7,838,932 | 1,742,003 | 23 L1 | 17.77 | 0% | 4.38% | 343,345 |
| | **Total Depreciable** | 52,290,923 | 16,175,852 | | | | 5.49% | 2,871,472 |
| | **Amortizable** | | | | | | | |
| 391.10 | Office Furniture and Equipment | 4,321,849 | 1,897,583 | 20 SQ | 13.58 | 0% | 4.13% | 178,492 |
| 391.25 | Computer Equipment | 16,876,123 | 9,328,180 | 7 SQ | 3.13 | 0% | 14.29% | 2,411,598 |
| 393.00 | Stores Equipment | 713,490 | 544,892 | 20 SQ | 6.63 | 0% | 3.56% | 25,400 |
| 394.00 | Tools, Shop and Garage Equipment | 12,116,799 | 8,745,170 | 15 SQ | 6.98 | 0% | 3.99% | 483,460 |
| 395.00 | Laboratory Equipment | 919,958 | 789,105 | 15 SQ | 3.4 | 0% | 4.18% | 38,454 |
| 398.00 | Miscellaneous Equipment | 141,504 | 109,014 | 20 SQ | 7.35 | 0% | 3.12% | 4,415 |
| | **Total Amortizable** | 35,089,723 | 21,413,944 | | | | 8.95% | 3,141,820 |
| | **Total General Plant** | 87,380,646 | 37,589,796 | | | | 6.88% | 6,013,292 |
| Line | | | | | | | | |
| 1 | **TOTAL GAS UTILITY** | 1,234,893,964 | 456,610,564 | | | | 2.08% | 25,732,350 |
| 2 | **NORMALIZED NET SALVAGE ALLOWANCE** | | | | | | | 2,369,227 |
| 3 | **TOTAL DEPRECIATION AND NET SALVAGE** | | | | | | | 28,101,577 |
| 4 | **COMPANY PROPOSAL WITH NET SALVAGE (REW-1, Statement B)** | | | | | | | 35,458,034 |
| 5 | **WHITE ALLOWANCE FOR FUTURE NET SALVAGE (L. 4 - L. 1)** | | | | | | | 9,725,684 |
| 6 | **DIFFERENCE BETWEEN CURB AND COMPANY (L. 4 - L. 3)** | | | | | | | 7,356,457 |

Source: Cols. (b), (d) & (e) from Exhibit REW-1. Col. (c) from page 3.

**Kansas Gas Service**

**Redistribution of Book Reserve Based on Theoretical Reserve**
**As of December 31, 2005**
**Based on Company's Parameters, No Future Net Salvage and COR Reserve Removed**

| | Account | 12/31/05 Plant Balance | 12/31/05 Book Reserve | 12/31/05 COR Regulatory Liability | Accumulated Depreciation 12/31/05 | Life/ Survivor Curve | VG A.S.L. | Average Remaining Life | Future Net Salvage | Avg. Net Salvage | Calculated Reserve | Redistributed Reserve | Reserve Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e)=(c)-(d) | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) |
| **TRANSMISSION PLANT** | | | | | | | | | | | | | |
| 365.20 | Rights of Way | 10,119,694 | 2,061,195 | 110,098 | 1,951,098 | 70 R1.5 | 70.47 | 62.91 | 0.0% | 0.9% | 1,166,944 | 2,036,449 | 20.12% |
| 366.10 | Compressor Station Structures | 4,038,803 | 3,527,674 | 72,268 | 3,455,406 | 42 L1.5 | 43.29 | 30.02 | 0.0% | -13.2% | 868,344 | 1,515,357 | 37.52% |
| 366.20 | Meas. and Reg. Station Structures | 1,257,571 | 889,180 | (82,465) | 971,645 | 55 S1.5 | 55.04 | 39.81 | 0.0% | -1.2% | 337,065 | 588,216 | 46.77% |
| 367.00 | Mains | 147,880,397 | 41,330,953 | (4,937,895) | 46,268,848 | 53 S0 | 53.89 | 42.25 | 0.0% | 0.3% | 32,289,324 | 56,348,506 | 38.10% |
| 368.00 | Compressor Station Equipment | 20,889,103 | 18,214,685 | 428,798 | 17,785,887 | 42 R1 | 43.37 | 30.78 | 0.0% | -7.9% | 4,892,770 | 8,538,435 | 40.88% |
| 369.00 | Meas. and Reg. Station Equipment | 13,189,892 | 1,462,434 | 170,072 | 1,292,362 | 45 R0.5 | 45.29 | 39.39 | 0.0% | -1.5% | 1,546,194 | 2,698,282 | 20.46% |
| | **Total Transmission Plant** | 197,375,460 | 67,486,121 | (4,239,125) | 71,725,246 | | 52.26 | | | | 41,100,640 | 71,725,246 | |
| **DISTRIBUTION PLANT** | | | | | | | | | | | | | |
| 374.20 | Rights of Way | 1,230,558 | 243,057 | - | 243,057 | 70 R1.5 | 70.38 | 60.55 | 0.0% | 0.0% | 171,872 | 271,243 | 22.04% |
| 375.00 | Structures and Improvements | 362,713 | 111,107 | (103,507) | 214,614 | 25 L0 | 25.83 | 19.94 | 0.0% | -9.0% | 57,509 | 90,758 | 25.02% |
| 376.10 | Mains - Metallic | 258,294,042 | 147,681,319 | 3,242,742 | 144,438,578 | 70 R1.5 | 70.47 | 55.42 | 0.0% | -2.0% | 51,100,216 | 80,644,546 | 31.22% |
| 376.20 | Mains - Plastic | 214,445,982 | - | | - | 45 R2.5 | 45.16 | 35.95 | 0.0% | -0.3% | 43,222,309 | 68,211,914 | 31.81% |
| 378.00 | Meas. and Reg. Station Equip. - General | 17,176,759 | 6,714,162 | (3,140,813) | 9,854,975 | 45 L1.5 | 44.84 | 34.75 | 0.0% | 0.8% | 3,971,647 | 6,267,912 | 36.49% |
| 379.00 | Meas. and Reg. Station Equip. - City Gate | 5,716,674 | 3,084,596 | (351) | 3,084,947 | 55 R2 | 54.76 | 40.76 | 0.0% | 0.4% | 1,478,552 | 2,333,398 | 40.82% |
| 380.10 | Services - Metallic | 33,180,615 | 161,491,958 | 4,484,230 | 157,007,728 | 45 L1 | 43.84 | 28.34 | 0.0% | -28.4% | 5,639,675 | 8,900,335 | 26.82% |
| 380.20 | Services - Plastic | 274,659,331 | - | | - | 40 S3 | 40.05 | 27.89 | 0.0% | -0.6% | 82,244,594 | 129,795,497 | 47.26% |
| 381.00 | Meters | 67,622,824 | 14,297,747 | 31,793 | 14,265,954 | 38 R3 | 37.79 | 28.40 | 0.0% | 0.4% | 17,006,093 | 26,838,413 | 39.69% |
| 382.00 | Meter Installations | 63,633,947 | 12,136,638 | 420,930 | 11,715,708 | 45 R1.5 | 45.07 | 36.83 | 0.0% | -1.3% | 10,957,986 | 17,293,504 | 27.18% |
| 383.00 | House Regulators and Installations | 13,590,288 | 6,278,843 | (192,227) | 6,471,071 | 55 R3 | 54.61 | 38.20 | 0.0% | 1.0% | 4,178,870 | 6,594,945 | 48.53% |
| 386.00 | Other Property - Customer Premises | 224,125 | 39,054 | 40,164 | (1,110) | 10 S3 | 10.00 | 8.50 | 0.0% | 0.0% | 33,619 | 53,056 | 23.67% |
| | **Total Distribution Plant** | 950,137,858 | 352,078,482 | 4,782,960 | 347,295,522 | | 47.46 | | 0.0% | | 220,062,942 | 347,295,522 | |
| **GENERAL PLANT** | | | | | | | | | | | | | |
| | **Depreciable** | | | | | | | | | | | | |
| 390.10 | General Structures | 21,475,552 | 6,714,095 | 71,481 | 6,642,614 | 55 R0.5 | 56.29 | 46.90 | 0.0% | 1.9% | 3,922,407 | 3,807,409 | 17.73% |
| 392.00 | Transportation Equipment | 14,694,213 | 6,643,300 | 655,160 | 5,988,140 | 10 L1.5 | 10.29 | 5.73 | 0.0% | 8.1% | 7,174,503 | 6,964,159 | 47.39% |
| 396.00 | Power Operated Equipment | 8,282,226 | 1,111,387 | 270,673 | 840,714 | 10 L3 | 9.79 | 5.75 | 0.0% | 7.3% | 3,772,897 | 3,662,282 | 44.22% |
| 397.00 | Communication Equipment | 7,838,932 | 3,034,746 | (9,824) | 3,044,569 | 23 L1 | 23.00 | 17.77 | 0.0% | 0.2% | 1,794,618 | 1,742,003 | 22.22% |
| | **Total Depreciable** | 52,290,923 | 17,503,529 | 987,491 | 16,516,038 | | 17.45 | | | | 16,664,425 | 16,175,852 | |
| | **Amortizable** | | | | | | | | | | | | |
| 391.10 | Office Furniture and Equipment | 4,321,849 | 1,385,595 | 13,698 | 1,371,896 | 20 SQ | 20.00 | 13.58 | 0.0% | 0.0% | 1,897,583 | 1,897,583 | 43.91% |
| 391.25 | Computer Equipment | 16,876,123 | 12,379,155 | - | 12,379,155 | 7 SQ | 7.00 | 3.13 | 0.0% | 0.0% | 9,328,180 | 9,328,180 | 55.27% |
| 393.00 | Stores Equipment | 713,490 | 414,983 | - | 414,983 | 20 SQ | 20.00 | 6.63 | 0.0% | 0.0% | 544,892 | 544,892 | 76.37% |
| 394.00 | Tools, Shop and Garage Equipment | 12,116,799 | 6,372,362 | 116,889 | 6,255,474 | 15 SQ | 15.00 | 6.98 | 0.0% | 0.0% | 8,745,170 | 8,745,170 | 72.17% |
| 395.00 | Laboratory Equipment | 919,958 | 528,350 | - | 528,350 | 15 SQ | 15.00 | 3.40 | 0.0% | 0.0% | 789,105 | 789,105 | 85.78% |
| 398.00 | Miscellaneous Equipment | 141,504 | 123,900 | - | 123,900 | 20 SQ | 20.00 | 7.35 | 0.0% | 0.0% | 109,014 | 109,014 | 77.04% |
| | **Total Amortizable** | 35,089,723 | 21,204,345 | 130,587 | 21,073,758 | | 9.92 | | | | 21,413,944 | 21,413,944 | |
| | **Total General Plant** | 87,380,646 | 38,707,874 | 1,118,078 | 37,589,796 | | 13.37 | | | | 38,078,369 | 37,589,796 | |
| | **TOTAL GAS UTILITY** | 1,234,893,964 | 458,272,477 | 1,661,913 | 456,610,564 | | 40.71 | | | | 299,241,951 | 456,610,564 | |

Source: Cols. (b), (c), (f), (g) & (h) from Exhibit REW-1. Col. (d) from CURB 175. Col. (j) from pages 4-5.

**Kansas Gas Service**

**Calculation of Average Net Salvage**
**As of December 31, 2005**
**Based on Company's Parameters, No Future Net Salvage and COR Reserve Removed**

| | | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| | Account | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | Rate |
| | (a) | (b) | (c) | (d) | (e) | (f) | (g)=(e)*(c) | (h)=(f)*(d) | (i)=(g)+(h) | (j)=(i)/(b) |
| **TRANSMISSION PLANT** | | | | | | | | | | |
| 365.20 | Rights of Way | 10,162,184 | 42,490 | 10,119,694 | 216.2% | 0.0% | 91,863 | - | 91,863 | 0.9% |
| 366.10 | Compressor Station Structures | 4,664,108 | 625,305 | 4,038,803 | -98.4% | 0.0% | (615,300) | - | (615,300) | -13.2% |
| 366.20 | Meas. and Reg. Station Structures | 1,313,595 | 56,024 | 1,257,571 | -29.2% | 0.0% | (16,359) | - | (16,359) | -1.2% |
| 367.00 | Mains | 161,389,065 | 13,508,668 | 147,880,397 | 3.0% | 0.0% | 405,260 | - | 405,260 | 0.3% |
| 368.00 | Compressor Station Equipment | 23,615,038 | 2,725,935 | 20,889,103 | -68.5% | 0.0% | (1,867,265) | - | (1,867,265) | -7.9% |
| 369.00 | Meas. and Reg. Station Equipment | 14,480,209 | 1,290,317 | 13,189,892 | -16.4% | 0.0% | (211,612) | - | (211,612) | -1.5% |
| **Total Transmission Plant** | | 215,624,199 | 18,248,739 | 197,375,460 | -12.1% | 0.0% | (2,213,413) | - | (2,213,413) | -1.0% |
| **DISTRIBUTION PLANT** | | | | | | | | | | |
| 374.20 | Rights of Way | 1,230,629 | 71 | 1,230,558 | -7.8% | 0.0% | (6) | - | (6) | 0.0% |
| 375.00 | Structures and Improvements | 652,462 | 289,749 | 362,713 | -20.3% | 0.0% | (58,819) | - | (58,819) | -9.0% |
| 376.10 | Mains - Metallic | 284,625,990 | 26,331,948 | 258,294,042 | -21.9% | 0.0% | (5,766,697) | - | (5,766,697) | -2.0% |
| 376.20 | Mains - Plastic | 217,550,724 | 3,104,742 | 214,445,982 | -21.9% | 0.0% | (679,938) | - | (679,938) | -0.3% |
| 378.00 | Meas. and Reg. Station Equip. - General | 19,051,046 | 1,874,287 | 17,176,759 | 7.9% | 0.0% | 148,069 | - | 148,069 | 0.8% |
| 379.00 | Meas. and Reg. Station Equip. - City Gate | 6,081,622 | 364,948 | 5,716,674 | 7.0% | 0.0% | 25,546 | - | 25,546 | 0.4% |
| 380.10 | Services - Metallic | 67,947,663 | 34,767,048 | 33,180,615 | -55.6% | 0.0% | (19,330,479) | - | (19,330,479) | -28.4% |
| 380.20 | Services - Plastic | 277,454,750 | 2,795,419 | 274,659,331 | -55.6% | 0.0% | (1,554,253) | - | (1,554,253) | -0.6% |
| 381.00 | Meters | 79,577,729 | 11,954,905 | 67,622,824 | 2.5% | 0.0% | 298,873 | - | 298,873 | 0.4% |
| 382.00 | Meter Installations | 69,638,563 | 6,004,616 | 63,633,947 | -14.6% | 0.0% | (876,674) | - | (876,674) | -1.3% |
| 383.00 | House Regulators and Installations | 14,946,946 | 1,356,658 | 13,590,288 | 11.4% | 0.0% | 154,659 | - | 154,659 | 1.0% |
| 386.00 | Other Property - Customer Premises | 224,125 | - | 224,125 | 0.0% | 0.0% | - | - | - | 0.0% |
| **Total Distribution Plant** | | 1,038,982,249 | 88,844,391 | 950,137,858 | -31.1% | 0.0% | (27,639,719) | - | (27,639,719) | -2.7% |

**Kansas Gas Service**

**Calculation of Average Net Salvage**
**As of December 31, 2005**
**Based on Company's Parameters, No Future Net Salvage and COR Reserve Removed**

| | | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| | Account | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | Rate |
| | (a) | (b) | (c) | (d) | (e) | (f) | (g)=(e)*(c) | (h)=(f)*(d) | (i)=(g)+(h) | (j)=(i)/(b) |
| **GENERAL PLANT** | | | | | | | | | | |
| | Depreciable | | | | | | | | | |
| 390.10 | General Structures | 24,473,225 | 2,997,673 | 21,475,552 | 15.4% | 0.0% | 461,642 | - | 461,642 | 1.9% |
| 392.00 | Transportation Equipment | 26,899,188 | 12,204,975 | 14,694,213 | 17.8% | 0.0% | 2,172,486 | - | 2,172,486 | 8.1% |
| 396.00 | Power Operated Equipment | 19,045,017 | 10,762,791 | 8,282,226 | 13.0% | 0.0% | 1,399,163 | - | 1,399,163 | 7.3% |
| 397.00 | Communication Equipment | 9,557,199 | 1,718,267 | 7,838,932 | 1.2% | 0.0% | 20,619 | - | 20,619 | 0.2% |
| | **Total Depreciable** | 79,974,629 | 27,683,706 | 52,290,923 | 14.6% | 0.0% | 4,053,909 | - | 4,053,909 | 5.1% |
| | **Amortizable** | | | | | | | | | |
| 391.10 | Office Furniture and Equipment | 4,951,207 | 629,358 | 4,321,849 | 0.0% | 0.0% | - | - | - | 0.0% |
| 391.25 | Computer Equipment | 20,725,681 | 3,849,558 | 16,876,123 | 0.0% | 0.0% | - | - | - | 0.0% |
| 393.00 | Stores Equipment | 846,563 | 133,073 | 713,490 | 0.0% | 0.0% | - | - | - | 0.0% |
| 394.00 | Tools, Shop and Garage Equipment | 14,820,328 | 2,703,529 | 12,116,799 | 0.0% | 0.0% | - | - | - | 0.0% |
| 395.00 | Laboratory Equipment | 999,037 | 79,079 | 919,958 | 0.0% | 0.0% | - | - | - | 0.0% |
| 398.00 | Miscellaneous Equipment | 238,545 | 97,041 | 141,504 | 0.0% | 0.0% | - | - | - | 0.0% |
| | **Total Amortizable** | 42,581,361 | 7,491,638 | 35,089,723 | 0.0% | 0.0% | - | - | - | 0.0% |
| | **Total General Plant** | 122,555,990 | 35,175,344 | 87,380,646 | 11.5% | 0.0% | 4,053,909 | - | 4,053,909 | 3.3% |
| | **TOTAL GAS UTILITY** | 1,377,162,438 | 142,268,474 | 1,234,893,964 | -18.1% | 0.0% | (25,799,223) | - | (25,799,223) | -1.9% |

Source: Cols. (b) through (e) from Exhibit REW-1.

## CERTIFICATE OF SERVICE

06-KGSG-1209-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing docket was placed in the United States mail, postage prepaid, or hand-delivered this 27th day of September, 2006, to the following:

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