In the Matter of the Application of Kansas Gas Service, A Division of ONEOK, Inc. for Adjustment of its Natural Gas Rates in the State of Kansas	)))))	DOCKET NO. 06-KGSG-___-RTS

DIRECT TESTIMONY

OF

DON WHITLOCK

ON BEHALF OF

KANSAS GAS SERVICE

A DIVISION OF ONEOK, INC

DIRECT TESTIMONY

OF

DON WHITLOCK

KANSAS GAS SERVICE

DOCKET NO. 06-KGSG-___-RTS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Whitlock. My business address is 7421 W. 129th Street, Overland Park, Kansas 66213.

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

A. I am employed by Kansas Gas Service, a division of ONEOK, Inc. ("Kansas Gas Service" or "Company"), as Director of Financial Services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Business Administration Degree from Washburn University in 1975. Since that time, I have been primarily employed in the utility industry. I held various positions in the accounting and finance area of Western Resources, Inc. and subsidiaries. In December 1997, I became an employee of Kansas Gas Service in my current capacity.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring accounting and financial data contained in the schedules included in Sections 3 through 12 of the Minimum Filing Requirements (MFRs). I sponsor the overall revenue requirement and certain pro forma adjustments necessary to normalize the test-year, to reflect known and measurable post-test-year changes, to exclude certain test-year costs, and to include costs previously deferred pursuant to Commission accounting orders. My testimony presents financial and accounting data taken directly from Kansas Gas Service's accounting records as well as accounting data supplied by ONEOK, Inc.

Q. WERE THE PORTIONS OF THE SCHEDULES THAT YOU ARE SPONSORING PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. WHAT IS THE TEST YEAR FOR THIS FILING?

A. The test year is the twelve-month period ending December 31, 2005, with certain adjustments for known and measurable post-test year changes that have occurred or are expected to occur prior to the date new rates requested in this case become effective.

Q. HOW DOES KANSAS GAS SERVICE MAINTAIN ITS BOOKS AND RECORDS?

A. The Company maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts and Generally Accepted Accounting Principles.

Q. WHICH SCHEDULES ARE YOU SPONSORING?

A. I am sponsoring schedules in the following sections of the MFRs:

Section 3	Summary of Pro Forma Rate Base, Revenues and Expenses supporting the Revenue Increase Requested
Section 4	Functional Classification of Plant in Service
Section 5	Functional Classification of Accumulated Depreciation and Amortization
Section 6	Working Capital Components
Section 7	Capital Structure
Section 8	Comparative Balance Sheets, Income Statements and Payroll Data
Section 9	Pro Forma Income Statement

Section 10 Pro Forma Depreciation and Amortization Expense

Section 11 Pro Forma Taxes

Section 12 Allocation Ratio

Q. PLEASE DESCRIBE THE STRUCTURE OF YOUR TESTIMONY.

A. I have structured my testimony in three parts. Part One provides a summary explanation of the increase required which appears on Exhibit__(DW-1). Part Two provides an explanation of the MFR schedules. Part Three describes the pro forma adjustments to the test-year data.

PART ONE
Summary Explanation of Reasons for the Required Increase

Q. PLEASE PROVIDE A SUMMARY EXPLANATION OF THE REASONS FOR THE REQUIRED INCREASE.

A. The increase is needed to provide Kansas Gas Service a reasonable opportunity to earn its authorized rate of return. Kansas Gas Service has experienced significant increases in its employee benefit costs over the past several years. Kansas Gas Service has continued to devote capital to its operations resulting in increases in plant in service and depreciation expense. The cost of gas inventory necessary to provide reliable customer service has increased significantly in the past few years, consistent with the market price of natural gas. Kansas Gas Service has also seen increases in its Operating and Maintenance costs.

PART TWO
Explanation of MFR Schedules

Q. PLEASE PROVIDE AN EXPLANATION OF SECTION 3 AND THE ACCOMPANYING SCHEDULES.

A. Section 3, Schedule 3-A, provides a summary of pro forma rate base, pro forma revenues less pro forma expenses to derive operating income at present rates. The operating income at present rates is divided by the rate base to calculate the rate of return earned at present rates.

Q. WHAT IS KANSAS GAS SERVICE'S CALCULATED RATE OF RETURN?

A. Kansas Gas Service's calculated rate of return under current rates is only 3.2438%.

Q. PLEASE EXPLAIN HOW THE REQUESTED REVENUE INCREASE WAS DETERMINED.

A. The required rate of return is applied to rate base to determine the additional operating income required. Because the additional operating income is after income taxes, this amount must be "grossed-up" to determine the revenue shortfall. Rate base on line 5 is $785,037,900; total revenue on line 6 is $209,396,105; less total expenses on line 7 of $183,931,146 results in pro forma operating income at present rates of $25,464,959 as shown on line 8. As indicated, the pro forma operating income at present rates divided by rate base results in a rate of return of 3.2438% shown on line 9. Line 11, the operating income requirement of $69,608,526 is compared to the operating income at present rates to calculate the required additional operating income of $44,143,567. This amount is shown on line 12. The associated income tax on line 13 is $29,157,221. The required overall revenue increase is $73,300,788; as shown on Line 14.

Q. PLEASE DESCRIBE THE REMAINING SCHEDULES IN SECTION 3.

A. Schedule 3-B summarizes Rate Base, Revenues and Expenses in columnar format categorized as amount per books, pro forma adjustments and pro forma adjusted totals. Schedule 3-C provides each pro forma adjustment used in the rate application.

Q. PLEASE DESCRIBE SECTION 4.

A. Section 4, Schedule 4-A, Functional Classification of Plant in Service, summarizes each plant in service detail account in functional categories under the headings of amount per books, pro forma adjustments and pro forma adjusted totals. The amount per books on Line 8 is $1,243,345,381; pro forma adjustments reflects an increase of $12,304,765; the pro forma adjusted total is $1,255,650,146. The total pro forma adjusted amount is forwarded to Schedule 3-A.

The remaining 4-A schedules provide each account by the uniform FERC three-digit account in columnar format categorized as amount per books, pro forma adjustments and pro forma adjusted total.

Schedule 4-B continues the three-digit account format and is expanded by providing comparisons for the twelve months ended December 31, 2002, 2003, 2004, and 2005.

Schedule 4-C provides summary pro forma adjustments to plant in service by functional classification, and is further explained in Part 3 of my testimony.

Schedule 4-D provides an explanation of pro forma adjustments.

Q. PLEASE DESCRIBE SECTION 5.

A. Section 5, Schedule 5-A, Summary Functional Classification of Accumulated Provision of Depreciation and Amortization, summarizes each detail reserve account in functional categories in columnar format under the headings of amount per books, pro forma adjustments and pro forma adjusted total. Corporate allocated accumulated depreciation is included to identify the portion of the ONEOK's reserve amortization of plant in service allocated to the Kansas Gas Service division. Line 9, amount per books is $460,556,957; pro forma adjustment is a decrease of $4,589,725; and pro forma adjusted total is $455,967,231. The total pro forma adjusted amount is forwarded to Schedule 3-A.

Schedule 5-B, Detail Functional Classification of Accumulated Provision of Depreciation and Amortization, provides each reserve account by the uniform FERC three-digit account in columnar format under the headings of amount per books, pro forma adjustments and pro forma adjusted totals. Sub-total amounts are forwarded to Schedule 5-A.

Schedule 5-C shows a Summary of Pro Forma Adjustments to Accumulated Provision of Depreciation and Amortization. This schedule summarizes by adjustment, each detail reserve account into functional categories in columnar format under the headings of amount per books, pro forma adjustments and pro forma adjusted total.

Schedule 5-D, Detail Functional Classification of Adjustments to Accumulated Depreciation and Amortization, shows each pro forma adjustment by the uniform FERC three-digit account in columnar format under the headings of amount per books, pro forma adjustments and pro forma adjusted totals. Amounts are forwarded to Schedule 5-B and are summarized in Schedule 5-C.

Schedule 5-E continues the three-digit account format and is expanded by providing comparisons for the twelve months ended December 31, 2002, 2003, 2004, and 2005.

Schedule 5-F provides an explanation of pro forma adjustments.

Q PLEASE DESCRIBE SECTION 6.

A. Section 6, Schedule 6-A, Summary of Working Capital, includes those items required to support the day-to-day business activities in rendering delivery service. Working capital items include materials and supplies, prepayments, gas storage inventory, prepaid pension asset, mobile home deferred costs and cash working capital requirements. This section also includes a reduction to rate base for such customer-provided capital items as accumulated deferred income tax liability (ADIT), customer deposits, customer advances and other post employment liabilities. Prepayments are shown to recognize advances for such items as insurance policy premiums. Gas storage inventory is included to reflect significant purchases of natural gas held in storage and constitutes an integral part of the natural gas portfolio of Kansas Gas Service. Because these types of costs fluctuate monthly, a thirteen-month average is utilized to normalize the embedded cost continually supplied or advanced by the Company.

Schedules 6-B, 6-C and 6-E each present thirteen months of data by the uniform FERC account in order to determine a thirteen-month simple average when so used.

Schedule 6-D sets forth the total ADIT that represents an offset to rate base, including the allocable portion of ADIT that corresponds to corporate plant allocated to Kansas Gas Service in Section 4.

Schedule 6-F presents the adjusted pro forma amounts for the Company's prepaid pension asset, other post employment benefit (OPEB) accumulated liability and the allocated portion of the corporate supplemental executive retirement plan (SERP) accumulated liability.

Schedule 6-G summarizes the cash working capital requirements sponsored by Company witness Darrell Bledsoe.

Q. PLEASE DESCRIBE SECTION 7.

A. Section 7, Schedule 7-A, Capital Structure, includes the components of long-term debt, and common equity.

Schedule 7-B presents ONEOK's cost of capital debt by issuance. This information is utilized to derive an overall embedded cost of debt and is forwarded to Schedule 7-A, long-term debt related cost rate.

Schedule 7-C explains the pro forma adjustments to cost of capital.

Schedule 7-D presents historical interest coverage for the twelve month periods ended December 31, 2002, 2003, 2004 and 2005.

Dr. William Avera, testifying on behalf of Kansas Gas Service, will support the capital structure components, the adjustments to the capital structure and the related capital costs.

Q. PLEASE DESCRIBE SECTION 8.

A. Section 8, Schedule 8-A compares the balance sheet of Kansas Gas Service for the periods ended December 31, 2002, 2003, 2004 and 2005. Column 6 shows the test-year balance sheet amounts.

Schedule 8-B presents an income statement by FERC functional account and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Schedule 8-C presents the retained earnings by FERC account and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Schedule 8-D presents detailed operating revenues by FERC account and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Schedule 8-E presents detailed operating expenses by FERC account and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Schedule 8-F presents usage, revenues and customer data and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Schedule 8-G presents Kansas Gas Service operations payroll data by FERC account and compares the twelve-month periods ended December 31, 2002, 2003, 2004, and 2005.

Q. PLEASE DESCRIBE SECTION 9.

A. Section 9, Schedule 9-A, presents the pro forma operating income statement. Revenues and expenses are summarized by the FERC functional categories to get operating income under present rates in columnar format under the headings of per books, pro forma adjustments and pro forma adjusted totals. All amounts shown under the "per books" column are taken directly from the books and records of the Company for the test-year. Total revenue on line 3, per books, is $962,086,827; pro forma adjustments to revenue are a decrease of $752,690,722 resulting in pro forma revenue of $209,396,105. Total expenses on line 18, per books, are $934,838,619; pro forma adjustments to expenses are a decrease of $750,907,473 resulting in pro forma expenses of $183,931,146. Operating income on line 19, per books, is $27,248,207; pro forma adjustments to operating income are a decrease of $1,783,249 resulting in pro forma operating income of $25,464,959.

Schedule 9-B is formatted similar to Schedule 9-A and is expanded to depict each pro forma adjustment proposed to normalize, to annualize, to exclude certain costs or to include costs previously deferred pursuant to accounting authority orders. Explanations of pro forma adjustments are subsequently provided in my testimony.

Schedule 9-C provides a brief narrative explanation of each adjustment along with the amount and account category.

Q. PLEASE DESCRIBE SECTION 10.

A. Section 10, Schedule 10-A, presents pro forma depreciation and amortization expense by the FERC functional categories in columnar format under the headings of per books, pro forma adjustments and pro forma adjusted totals. Corporate allocated amortization expense is included to identify the portion of ONEOK's amortization of plant in service allocated to Kansas Gas Service. Total expense on line 15, per books, is $48,740,223; pro forma adjustments are a decrease of

$8,896,780 resulting in pro forma expense of $39,843,443. All amounts described above are forwarded to Schedule 9-A.

Schedule 10-B presents depreciation and amortization with amounts related to clearing accounts.

Schedule 10-C provides depreciation and amortization adjustments by FERC function. The total pro forma adjustment amounts are forwarded to Schedule 10-A.

Schedule 10-D depicts current depreciation rates and proposed depreciation rates resulting from a depreciation study performed and submitted as part of this application. Dr. Ron White, testifying on behalf of the Company, sponsors the depreciation study.

Schedule 10-E calculates the pro forma depreciation expense based on existing depreciation rates.

Schedule 10-F calculates the pro forma depreciation expense based on the proposed depreciation rates.

Q. WHAT IS SHOWN IN SECTION 11?

A. Section 11, Schedule 11-A presents taxes other than income taxes and income taxes in columnar format under the headings of per books, pro forma adjustments and pro forma adjusted totals. Total taxes applicable to operations on line 8, per books, are $13,055,610; pro forma adjustments increase taxes $9,483,147 resulting in pro forma taxes of $22,538,757. These respective amounts are forwarded to Section 9.

Schedule 11-B lists taxes other than income taxes such as components of payroll taxes and real estate and personal property taxes in columnar format under the headings of per books, pro forma adjustments and pro forma adjusted total.

Schedule 11-C, calculates taxable income and income taxes. In determining taxable income, I have synchronized interest expense by multiplying the weighted cost of debt in Section 7 by the rate base shown in Section 3. This schedule provides the necessary components to determine the appropriate taxable income based upon book revenues, expenses and all pro forma adjustments to operations. These values are forwarded to Schedule 11-A.

Schedule 11-D provides an schedule of the increases or decreases to operating income.

Schedule 11-E shows the components of test period book and pro forma deferred income tax expense and amortization of investment tax credits.

Schedule 11-F describes the test period book/tax timing differences necessary to compute test period income tax expense.

Schedule 11-G shows the calculation of the tax gross-up ratio as well as providing the computation for the interest synchronization calculation.

Schedule 11-H provides the historic activity of the balance of the deferred investment tax credits and deferred income taxes.

Q. PLEASE DESCRIBE SECTION 12.

A. Section 12 contains a summary of the primary cost allocation ratios used within the application to allocate corporate costs to Kansas Gas Service. The first ratio is known as the Distrigas ratio and it represents the average of Kansas Gas Service's portion of Gross Plant and Investment, Operating Income, and Labor Expense to total ONEOK data. As shown on line 4, the pro forma Distrigas ratio is 15.56%, which incorporates the recent ONEOK / Northern Borders transaction. This post-test period allocation ratio was incorporated into Adjustment No. IS 19 discussed later in my testimony. The Distrigas ratio is used to allocate common corporate costs among ONEOK affiliates.

The second ratio listed is the customer count ratio comparing the December 31, 2005 customer counts of Kansas Gas Service to the total count of customers for

Kansas Gas Service and its affiliates, Oklahoma Natural Gas and Texas Gas Service. This ratio is used to allocate the customer information system and the related accumulated depreciation and ADIT liability for purposes of this rate proceeding.

Q. PLEASE DESCRIBE SECTION 13.

A. Section 13 contains ONEOK's 2005 annual report to stockholders, which includes the FORM 10-K filed with the Securities and Exchange Commission.

Q. PLEASE DESCRIBE SECTIONS 14 AND 15.

A. Commission regulations provide that Sections 14 and 15 of the MFRs can be used to present additional evidence not provided elsewhere in the application. No additional evidence has been submitted.

Q. PLEASE DESCRIBE SECTION 16.

A. Financial statements required by Commission regulations to be included in Section 16 are provided in Section 13.

Q. WHO IS SPONSORING SECTIONS 17 AND 18?

A. Section 17 is sponsored by Company witness Darrell Bledsoe and Section 18 is sponsored by Company witness Frank Garver.

PART THREE

Explanation of Pro Forma Adjustments

Q. WOULD YOU GENERALLY DESCRIBE THE APPROACH YOU USED IN NUMBERING THE PRO FORMA ADJUSTMENTS IN THE SCHEDULES?

A. For any Section/Schedule that contains a pro forma adjustment, I provided an initialized identifier to show the relevant subject matter. The identifiers are:

- PLT Plant in Service (Section 4)
- ADA Accumulated Depreciation and Amortization (Section 5)
- WC Working Capital (Section 6)
- IS Income Statement (Section 9)
- DA Depreciation and Amortization (Section 10)

I used successive numbering for each initialization category.

Q. ALTHOUGH YOU DO NOT SUPPORT ALL PRO FORMA ADJUSTMENTS, PLEASE IDENTIFY THE VARIOUS ADJUSTMENTS THAT SUPPORT THE COMPANY'S APPLICATION ANDTHE SPONSORING WITNESSES.

A. The adjustments and sponsoring witnesses are set forth below.

Adjustment	Descriptions	Witness
PLT 1	CWIP	Whitlock
PLT 2	Billing System	Whitlock
PLT 3	Allocation of Corporate Assets	Whitlock
PLT 4	Asset Retirements	Whitlock
PLT 5	MCMC Assets	Whitlock / Tangeman
ADA 1	Acc. Depreciation on Corporate Assets	Whitlock
ADA 2	Acc. Depreciation – Asset Retirements	Whitlock
ADA 3	Acc. Depreciation – MCMC Assets	Whitlock
WC 2	Corporate ADIT	Whitlock
WC 3	Pension/OPEB Asset/Liability	Hagerty / Whitlock
WC 4	Mobile Home Deferrals	Whitlock
WC 5	Cash Working Capital	Bledsoe
IS 1	Billed Revenues – Test Year	Bledsoe
IS 2	Eliminate Accrued and Unbilled Revenues	Bledsoe
IS 3	Eliminate Deferred WNA Revenues	Bledsoe
IS 4	Eliminate Billed WNA	Bledsoe
IS 5	Eliminate Ad-Valorem Surcharge Revenue and Expense	Bledsoe
IS 6	As Available Gas Sales Revenue	Bledsoe
IS 7	Normalize Test-year Revenue	Bledsoe
IS 8	Eliminate Cost of Gas Revenue and Expense	Bledsoe
IS 9	Weather Normalization	Raab
IS 10	Customer Annualization	Raab
IS 11	Annualize Uncollectible Expense	Whitlock
IS 12	Payroll Annualization	Whitlock
IS 13	Pension Annualization	Whitlock
IS 14	Other Post Employment Benefit Cost Annualization	Whitlock
IS 15	Annualize Depreciation – Current Rates	Whitlock
IS 16	Annualize Depreciation – Proposed Rates	White / Whitlock
IS 17	Annualize Depreciation – Corporate Assets	Whitlock
IS 18	Annualize Amortization Expense	Whitlock

Adjustment	Descriptions	Witness
IS 19	Annualize Corporate Costs	Whitlock
IS 20	Eliminate Royalty Costs	Whitlock
IS 21	Remove out-of-period Corporate Credits	Whitlock
IS 22	Eliminate aircraft O&M Costs	Whitlock
IS 23	Eliminate out-of-period CIS Credits	Whitlock
IS 24	Eliminate Excess Clearing Costs	Whitlock
IS 25	Eliminate certain MCMC Costs	Tangeman / Whitlock
IS 26	Annualize Insurance Expense	Whitlock
IS 27	Annualize Telcom Costs	Whitlock
IS 28	Remove out-of-period Customer Expenses	Whitlock
IS 29	Annualize CIS Costs increases	Whitlock
IS 30	Eliminate Certain Charitable, Civic and Membership Costs	Whitlock
IS 31	Amortize Rate Case Expense	Whitlock
IS 32	Reclassify Interest on Customer Deposits	Whitlock
IS 33	Normalize Income Tax Expense	Whitlock

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS CONTAINED IN SECTION 4, BEGINNING WITH ADJUSTMENT NO. PLT 1.

A. Adjustment No. PLT 1 increases rate base $6,759,885 to reflect the portion of construction work in progress (CWIP) at December, 31, 2005, that is anticipated to be completed and placed in service by June 30, 2006, and is not associated with expenditures required to serve new customers. These costs were determined through a review of open work orders at the end of the test period. Those costs associated with new customers were removed, leaving a balance of $6,759,885. This recognition of completed plant as a rate base component is authorized pursuant to K.S.A. 66-128(b)(2).

Q. PLEASE EXPLAIN ADJUSTMENT NO. PLT 2.

A. Adjustment No. PLT 2 increases rate base $2,618,803 by reflecting the Kansas Gas Service portion of actual and estimated capital expenditures necessary to complete the ONEOK distribution customer information system. The system currently provides service to Kansas Gas Service and Texas Gas Service. The adjustment includes the allocated portion of actual expenditures incurred for the period January – March 2006 as well as the remaining budgeted costs necessary to complete the distribution customer information system. This includes costs required to integrate Oklahoma Natural Gas into the customer information system.

Q. WHAT IS THE JUSTIFICATION FOR INCLUDING ADDITIONAL COSTS FOR THE CUSTOMER INFORMATION SYSTEM IN RATE BASE?

A. The costs necessary to fully integrate ONEOK's distribution divisions into a common billing system and customer service platform must be incurred in stages. Each distribution division has different customer service information and billing requirements and, as a consequence, the system is completed and integrated incrementally. Kansas Gas Service began utilizing the customer information system in September 2004.

It is important to recognize that the common customer information system asset cost is being allocated to all three distribution divisions for purposes of this rate proceeding, despite the fact that Oklahoma Natural Gas is not currently utilizing the system. Therefore, Kansas Gas Service's revenue requirement is lower than if such common costs had only been allocated between Kansas Gas Service and Texas Gas Service. Since the allocation rate (embedded in the allocation of common corporate assets in Adjustment No. PLT 3) includes Oklahoma Natural Gas, it is necessary to also incorporate the remaining capital expenditures necessary to complete the Oklahoma Natural Gas implementation. The inclusion of Oklahoma Natural Gas in the allocation of customer information system costs is properly linked to the recognition of remaining costs required to fully integrate the customer information system.

Q. PLEASE DESCRIBE ADJUSTMENT NO. PLT 3.

A. Adjustment No. PLT 3 increases Plant in Service $19,888,598 and is necessary to allocate a pro rata share of corporate assets to Kansas Gas Service. These assets include items such as leasehold improvements, office furniture, enterprise software, and data processing equipment. Assets specifically excluded from allocation to Kansas Gas Service include fully depreciated trucks and trailers, corporate aircraft and artwork.

The corporate assets are assigned to Kansas Gas Service through one of several allocation methodologies. The majority of common assets are allocated to Kansas Gas Service using the Distrigas allocation methodology. Customer information system costs are allocated among the three distribution divisions based on the ratio of the number of customers of each division to total customers. The Oklahoma Natural Gas billing and customer care function will be implemented into the customer information system while this proceeding is pending. Therefore, recognition of Oklahoma Natural Gas in the allocation ratio is appropriate consistent with the recognition of Oklahoma Natural Gas implementation costs as a common cost subject to allocation among the three distribution divisions.

Q. PLEASE EXPLAIN ADJUSTMENT NO. PLT 4.

A. Adjustment No. PLT 4 reduces rate base $7,737,472 associated with the retirement of assets subsequent to the test period. This adjustment corresponds to Adjustment No. ADA 2, discussed later in my testimony.

This adjustment is necessary to reflect the retirement of assets that were not providing service at the end of the test period and, therefore, should be removed for purposes of determining rate base and the associated level of pro forma depreciation expense.

Q. PLEASE EXPLAIN ADJUSTMENT NO. PLT 5.

A. Adjustment No. PLT 5 reduces rate base $9,225,050 by eliminating certain MCMC assets. Company witness Richard Tangeman supports this adjustment in his testimony.

Q. PLEASE EXPLAIN THE PRO FORMA ADJUSTMENTS IN SECTION 5, ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION.

A. Adjustment No. ADA 1 increases accumulated depreciation $5,004,555 to reflect he portion of accumulated depreciation associated with corporate assets allocated to Kansas Gas Service within Adjustment No. PLT 3. The accumulated depreciation on these assets is assigned to Kansas Gas Service in the same proportion as the underlying asset allocation. This adjustment is necessary to match the accumulated depreciation associated with corporate assets allocated to Kansas Gas Service with the underlying cost of the asset.

Q. PLEASE EXPLAIN ADJUSTMENT NO. ADA 2.

A. Adjustment No. ADA 2 reduces accumulated depreciation $7,737,471, by recognizing the impact of post test period retirements on the test period balance of accumulated depreciation. The corresponding Adjustment No. PLT 4 was discussed earlier in my testimony.

Q. PLEASE EXPLAIN ADJUSTMENT NO. ADA 3.

A. Adjustment No. ADA 3 reduces accumulated depreciation $1,856,809 associated with MCMC assets and corresponds to Adjustment No. PLT 5 discussed earlier in my testimony and by Company witness Richard Tangeman. The accumulated depreciation associated with the excluded assets must be eliminated from the rate base for consistency purposes.

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS IN SECTION 6, WORKING CAPITAL, BEGINNING WITH ADJUSTMENT NO. WC 1.

A. Adjustment No. WC 1, shown on Schedule 6-C, allocates a portion of corporate prepaid insurance and prepaid information technology (IT) maintenance costs to Kansas Gas Service, increasing rate base $675,288. The total corporate asset balances were allocated to Kansas Gas Service using the Distrigas allocation ratio. These items represent working capital that is expended by ONEOK corporate on behalf of its divisions, including Kansas Gas Service. The prepaid insurance costs are payments made for general corporate insurance for the benefit of all divisions. The IT maintenance agreement costs include required software maintenance costs that are prepaid annually.

Q. PLEASE EXPLAIN ADJUSTMENT NO. WC 2.

A. Adjustment No. WC 2 allocates a portion of corporate ADIT to Kansas Gas Service as shown on Schedule 6-D. ADIT represents a source of customer-provided capital and, therefore, should be reflected as such in the rate filing. The adjustment reduces rate base by $5,062,959 and represents the portion of ADIT associated with corporate assets that are allocated to Kansas Gas Service.

Q. PLEASE EXPLAIN ADJUSTMENT NO. WC 3.

A. Adjustment No. WC 3 reduces working capital and rate base $9,629,434 by recognizing certain adjustments to prepaid pensions, OPEB liability and SERP as shown on Schedule 6-F. This adjustment is necessary to properly state the pro forma balance of prepaid pension asset/liability and OPEB costs. The components of the adjustment are as follows:

- Prepaid Pension Asset ($1,667,015)
- OPEB Liability (Kansas Gas Service) ($5,854,465)
- SERP Liability (Corporate) ($2,107,954)

Robin Hagerty provides testimony supporting the inclusion of the prepaid pension asset in rate base as shown on Schedule 6-F. The portion of the adjustment associated with the prepaid pension asset was determined by reducing the test year-end balance to the pro forma balance calculated by Ms. Hagerty.

The OPEB liability represents Kansas Gas Service's accrued liability associated with its obligations for retiree medical costs. This balance represents the unfunded portion of the liability and a source of cost-free capital, thereby reducing rate base.

The SERP liability represents the portion of corporate pension liability properly allocated to Kansas Gas Service using the Distrigas allocation methodology. This liability, similar to the OPEB liability, represents a source of cost-free capital and, therefore, is properly reflected as a rate base reduction.

Q. PLEASE EXPLAIN OF ADJUSTMENT NO. WC 4.

A. Adjustment No. WC 4 increases working capital $724,568 as shown on Schedule 6-G. These costs have been deferred pursuant to the Commission's Order in Docket No. 01-KGSG-429-ACT related to carrying charges on capital expenditures incurred for Kansas Gas Service's Mobile Home Park Distribution System Replacement Program.

The balance included in working capital represents the estimated cost deferrals accrued through January 2007, the date at which rates approved in this docket become effective. Inclusion in rate base of the updated deferred costs is appropriate given that the underlying mobile home replacement program is complete. If such carrying costs were not trued up to the period that rates are to become effective, such costs would continue to be accrued until the next rate proceeding. This program began in early 2001, resulting in a significant lag in the collection of the carrying charges. Any further delay in the collection of these charges only results in an increase in carrying charges to be paid by customers in the future. These deferred costs represent a use of Kansas Gas Service funds and, therefore, should be recognized as a working capital component of rate base. The true-up of mobile home carrying costs during the period this case is pending is similar in nature to the normal rate case expense true-up.

Q. PLEASE EXPLAIN ADJUSTMENT NO. WC 5.

A. Adjustment No. WC 5 increases working capital $11,324,676 as shown in Schedule 6-H and reflects the results of the Company's cash working capital study. Company witness Darrell Bledsoe explains the study and supports this adjustment.

Q. PLEASE IDENTIFY THE INCOME STATEMENT ADJUSTMENTS YOU ARE SPONSORING IN SECTION 9.

A. As previously indicated, Company witness Darrell Bledsoe is sponsoring Adjustment Nos. IS 1 through IS 8. Company Witness Paul Raab is sponsoring Adjustment Nos. IS 9 and 10. I am sponsoring Adjustment Nos. IS 11 through 33.

Q. PLEASE DISCUSS ADJUSTMENT NO. IS 11.

A. Adjustment No. IS 11 decreases test period operating and maintenance (O&M) costs by $6,039,450. This adjustment is required to annualize the impact on bad debt expense resulting from the Commission's order in Docket 05-ATMG-643-GIG authorizing Kansas Gas Service to recover the portion of uncollectible customer accounts associated with purchase gas costs through the Cost of Gas Rider. This adjustment reduces test-year uncollectible expense to a calculated 3-year average of margin (service charge plus delivery charge).

Q. PLEASE DISCUSS ADJUSTMENT NO. IS 12.

A. Adjustment No. IS 12 increases test period O&M costs by $720,769. This adjustment is necessary to annualize payroll and payroll tax costs during the test period. The adjustment incorporates the following calculations:

- Annualize costs of employees terminating and transferring employment during the test period.
- Annualize costs of employees hired during the test period.
- Annualize payroll costs for union wage increases effective July, 2005
- Annualize payroll costs for non-union wage increases effective January 1, 2006.
- Annualize payroll costs for actual and estimated union wage increases effective July 1, 2006.
- Annualize payroll taxes based upon the above calculations.
- Annualize corresponding 401k costs based on the above calculations

This adjustment is necessary to properly annualize the various payroll cost impacts occurring in the test period as well as reflecting post test period wage changes. The adjustment is spread to various O&M accounts based upon test period payroll distribution.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 13.

A. Adjustment No. IS 13 increases administrative and general costs $2,238,787 to reflect an annualized level of pension expense in the test period based upon the known and measurable pension costs determined by an actuarial study prepared by ONEOK's actuarial firm, Mercer Health and Benefits Consulting (Mercer). The study uses a September 2005 measurement date to determine the following year's pension costs.

The adjustment was determined by annualizing Kansas Gas Service's 2006 costs incurred for the period January through March 2006, supported by Mercer's actuarial study. The increase in gross pension costs was then multiplied by the ratio of O&M labor to total labor to quantify the portion of the cost increase associated with O&M costs.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 14.

A. Adjustment No. IS 14 increases administrative and general costs $357,194 and is necessary to reflect known and measurable changes in OPEB costs to test period operations. The adjustment was determined in a similar fashion to that of Adjustment No. IS 13. Costs for the first quarter 2006 were annualized and then compared with test period costs. The difference multiplied by the O&M labor ratio results in an adjustment increasing O&M costs $357,194. The 2006 costs are based on the Mercer actuarial study.

Q. .PLEASE EXPLAIN ADJUSTMENTS NOS. IS 15 THROUGH 18 RELATED TO DEPRECIATION AND AMORTIZATION EXPENSE.

A. Adjustment No. IS 15, Annualized Depreciation, reflects the effects of annualizing depreciation expense based on the test-year-end plant in service balances. The plant in service account numbers are based on the accounting requirements of the FERC Uniform System of Accounts. The respective depreciation rates are those approved by this Commission and were in effect during the test year. Depreciation expense is determined by using the straight-line method of depreciation based on the estimated useful lives of property using rates by asset grouping. The annualized depreciation expense amount was compared to the amounts charged to depreciation expense in the test year for each asset account balance. The difference between the amount calculated and the amount recorded during the test year represents the necessary expense adjustment required to reflect on-going expense levels at the current rates. This difference between the annualized and actual expense is caused by asset additions and retirements during the test year. Taking Kansas Gas Service's pro forma plant in service balance for each FERC account and applying the respective current depreciation rate to the pro forma balance determines an annualized depreciation expense amount. This adjustment increases operating expense in the amount of $1,098,626.

Adjustment No. IS 16 reflects the effects of new depreciation rates resulting from the depreciation study conducted by Dr. Ron White. The annualized depreciation expense / new proposed rates, applied to pro forma plant in service, is compared to the annualized expense at current rates to determine the "decremental" annual expense due to a change in depreciation rates. This adjustment reduces operating expenses $4,917,838.

Adjustment No. IS 17 reduces depreciation expense $570,830 by annualizing depreciation expense on corporate assets allocated to Kansas Gas Service. This adjustment is necessary to reduce test period costs to correspond to that level of depreciation expense that is properly charged to Kansas Gas Service based on an allocation of pro forma adjusted plant. The adjustment is largely attributable to the allocation of a portion of the customer information system to Oklahoma Natural Gas. It was computed by multiplying corporate plant allocated to Kansas Gas Service by the applicable depreciation rate. The test period depreciation allocated to Kansas Gas Service for corporate assets is then subtracted from the pro forma level of depreciation expense to arrive at the pro forma adjustment.

Adjustment No. IS 18 increases test-year amortization expense $514,423. There are two components of this adjustment, both related to the amortization of mobile home park deferred costs. The adjustment eliminates the amortization of mobile home park costs incurred prior to the last rate proceeding that will be fully amortized in 2006 and annualizes the amortization of deferred mobile home park costs that have been incurred subsequent to the last rate proceeding. This results in a net increase in Amortization Expense of $514,423. Test-year mobile home park amortizations reflect the amortization of costs expended pursuant to the Commission's Order in Docket No. 01-KGSG-429-ACT. The Order Approving Stipulation and Agreement and Accounting Order authorized a 5-year program encompassing $10 million of capital expenditures related to mobile home park distribution systems. The Company received an accounting order that allowed for the deferral of all carrying costs, consisting of depreciation, property taxes and interest on construction, associated with the Mobile Home Park Distribution System Replacement Program until the Company's next rate case filing. The Company sought and received recovery of the deferred carrying costs through August 31, 2002 in Docket No 03-KGSC-602-RTS. This adjustment removes the amortization of the recovery under the previous docket, replacing it with one-third of the deferred balance at January 31, 2007, the anticipated effective date for rates from this docket. Utilizing one-third of the recoverable balance anticipates a recovery period of three years.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 19.

A. Adjustment No. IS 19 reduces administrative and general expenses $1,377,784 by annualizing corporate costs allocated to Kansas Gas Service under the Distrigas methodology to reflect the allocation ratio in effect April 1, 2006. The adjustment incorporates the pro forma impacts of the recent corporate restructuring by eliminating non-recurring test period transactions and utilizing the revised Distragas allocation percentage.

Q. PLEASE EXPLAIN OF ADJUSTMENT NO. IS 20.

A. Adjustment No. IS 20 reduces administrative and general costs $6,781,605 by eliminating corporate royalty and markup charges.

Q. PLEASE DISCUSS ADJUSTMENT NO. IS 21.

A. Adjustment No. IS 21 reduces administrative and general costs $340,534 by eliminating certain corporate costs that relate to 2004 operations. The total corporate costs were identified and applied to the pro forma Distrigas percentage, incorporated in Adjustment No. IS 19. Since the costs do not relate to test period operations, they should be eliminated from the pro forma test period expenses.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 22.

A. Adjustment No. IS 22 eliminates the Kansas Gas Service portion of administrative and general costs associated with corporate aircraft. This results in a reduction in O&M cost of $44,410.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 23.

A. Adjustment No. IS 23 increases administrative and general costs and is necessary to eliminate out-of-period credits associated with customer information system O&M costs. The result is an increase in O&M costs in the amount of $263,630.

Q. PLEASE EXPLAIN ADJUSTMENT NO IS 24.

A. Adjustment No. IS 24 reduces O&M costs $75,130 by normalizing O&M costs cleared in the test period. This adjustment was determined by netting the over/under cleared amounts for two unrelated activities: payroll loadings and vehicle clearings.

Q. PLEASE EXPLAIN THE UNDERLYING ACCOUNTING FOR CLEARING ACCOUNTS AND WHY AN ADJUSTMENT FOR EACH CLEARING PROCESS IS APPROPRIATE.

A. I will address both the payroll loading process as well as the vehicle clearing process.

Payroll loading (also known as labor attends) is necessary to assign the cost of employee benefits to the accounts where corresponding labor charges are recorded. This is accomplished by developing a ratio of benefit costs to labor and then allocating the benefit costs by applying the ratio to actual labor recordings. The original employee benefit costs are charged to account 926 and related payroll taxes to account 408. When labor charges are recorded to the appropriate O&M expense account, the benefit ratio is used to spread the corresponding benefit costs to the appropriate O&M account. The offsetting entry is a credit to accounts 926 and 408. Because the ratio used is necessarily an estimate, actual benefit costs will vary from those cleared. In the test period, the amounts credited to account 926 (using the estimated benefits ratio) exceeded the actual expenses charged to account 926, resulting in excess O&M credits of $67,758.

The other portion of this adjustment relates to vehicle clearings. The charges associated with operating Kansas Gas Service vehicles is recorded to an asset account, vehicle clearings. Charges incurred within this account include such items as depreciation, gasoline, and maintenance costs. A clearing rate is developed and charged to appropriate O&M accounts based upon vehicle usage and are related to the actual labor account distribution of the employee operating the vehicle or work equipment. Like labor attends, the clearing rates are also based upon estimates and therefore will not precisely match the actual charges incurred by Kansas Gas Service to operate and maintain vehicles and work equipment. A review of the beginning and ending balances of the vehicle clearing account indicates that excess amounts were cleared during the test period compared with actual charges incurred, resulting in excess O&M charges in the test period of $142,888. The net of these two offsetting clearing account adjustments is a reduction in test period O&M costs of $75,130.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 25.

A. Adjustment No. IS 25 reduces O&M costs $167,049 by eliminating the operating costs associated with certain transferred MCMC assets. Company witness Richard

Tangeman provides the justification for this adjustment in his testimony. The amount was determined from the underlying accounting records of Kansas Gas Service.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 26.

A. Adjustment No. IS 26 increases test period O&M costs $91,783 to annualize the impact of corporate insurance premium increases occurring in 2005. The premium increases are known and measurable and, therefore, inclusion of this adjustment is necessary to properly reflect ongoing levels of Kansas Gas Service insurance costs in the test period.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 27.

A. Adjustment No. IS 27 reduces test-year administrative and general expense – Telecommunications by $54,935. This adjustment incorporates three separate factors arising from a new telecommunications service agreement dated July 18, 2005. The factors are:

- Normalization of a one-time credit
- Annualization of the new long distance rates
- Cost savings resulting from the change in telecommunications service providers

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 28.

A. Adjustment No. IS 28 increases administrative and general costs $91,127 by eliminating a bank vendor credit entry recorded in January 2005 which pertained to a prior period.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 29.

A. Adjustment No. IS 29 increases pro forma costs in account 903, Customer Record and Collection Expense by $150,692 to reflect known and measurable increases in postage and paper costs. Of this amount, $132,891 relates to increased postage costs, while $17,802 relates to increased paper costs.

The postage increase was determined by applying the 5.4% increase in postal rates effective January 8, 2006, to 2005 total bills. The increase in paper and envelope costs was computed by applying the new costs identified by Kansas Gas Service's paper and envelope supplier to the usage during the first quarter 2006. These increased costs were then annualized to arrive at an adjustment for paper and envelopes of $17,802.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-30.

A. Adjustment No. IS 30 reduces operating expenses $170,625 to recognize the elimination of certain dues and donations. In general, the expenses associated with memberships that do not provide a benefit to customers and lobbying costs have been eliminated, while one-half of charitable contributions have been eliminated from operating expenses.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 31.

A. Adjustment No. IS 31 increases expenses by $100,000. This adjustment eliminates the amortization of rate case costs from Docket 03-KGSG-602-RTS and includes an estimate of cumulative rate case expense amortized over a three-year period associated with this case. The actual costs of this rate proceeding should be trued-up at its conclusion.

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 32.

A. Adjustment No. IS 32 increases Miscellaneous General Expenses $662,725 and is necessary to incorporate the interest expense on customer deposits into the Kansas Gas Service revenue requirement.

The balance of accrued customer deposits (a liability) is reflected as a reduction to rate base as identified in Schedule 6-E of the MFRs. However, while the liability balance represents customer provided capital, there is a corresponding cost that is applied to customer deposits, currently established by the Commission at

4.40%. A pro forma adjustment applying the Commission-authorized rate to the test year-end balance is required.

Q. PLEASE EXPLAIN ADJUSTMENT NO IS 33.

A. Kansas Gas Service Adjustment No. IS 33 increases income tax expense $4,064,864. This adjustment is necessary to synchronize income tax expense with the pro forma adjustments as shown on Schedule 11-A. It incorporates interest synchronization as shown on Schedule 11-G.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

DON WHITLOCK, being duly sworn upon his oath, deposes and states that he is Director of Financial Services for Kansas Gas Service, a Division of ONEOK, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Don Whitlock

Subscribed and sworn to before me this 11th day of May 2006.

NOTARY PUBLIC

My appointment Expires:

NOTARY PUBLIC - State of Kansas
CATHY KUNCE
My Appt. Exp. 11/12/09

KANSAS GAS SERVICE, A DIVISION OF ONEOK, INC.
SUMMARY OF REVENUE REQUIREMENT
Test Year Ended December 31, 2005

Line No.	Description	Amount	Operating Income Net of Tax Effect	Income Tax Gross-Up Rate	Revenue Requirement Total
	Rate Base				
1	Current Case As Filed	$785,037,900			
2	Less: Docket No. 03-KGSG-602-RTS	655,365,284			
3	Increase in Rate Base	$129,672,616			
4	Rate of Return - Requested in Current Case	8.8669%			
5	Operating Income - Net of Tax Effect		$11,497,941	1.6605	$19,092,434
	Change in Rate of Return				
6	Rate of Return - Requested in Current Case	8.8669%			
7	Rate of Return - Requested in Prior Case	9.3037%			
8	Change in Return - Net of Tax Impacts	-0.4368%			
9	Rate Base - Docket No. 03-KGSG-602-RTS	$655,365,284			
10	Rate of Return Operating Income Effect		($2,862,636)	1.6605	($4,753,432)
	Operating Income				
11	Current Case as Filed	$25,464,959			
12	Docket No. 03-KGSG-602-RTS	60,973,220			
13	Operating Income		$35,508,261	1.6605	58,961,786
14	Revenue Increase Required				$73,300,788