

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. 12-KGSG-~~83~~RTS

Received  
on

MAY 18 2012

by  
State Corporation Commission  
of Kansas

**DIRECT TESTIMONY**  
**OF**  
**BRADLEY O. DIXON**  
**ON BEHALF OF**  
**KANSAS GAS SERVICE**  
**A DIVISION OF ONEOK, INC**

**DIRECT TESTIMONY**

**OF**

**BRADLEY O. DIXON**

**KANSAS GAS SERVICE**

**DOCKET NO.12-KGSG-85 RTS**

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1 **I. INTRODUCTION**

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

3 A. My name is Bradley O. Dixon. My business address is 7421 West 129<sup>th</sup>  
4 Street, Overland Park, Kansas 66213.

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

6 A. I am President of Kansas Gas Service, a Division of ONEOK, Inc. ("KGS",  
7 "Kansas Gas Service" or the "Company").

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
9 **PROFESSIONAL EXPERIENCE.**

10 A. I received a Bachelor of Business Administration Degree from Washburn  
11 University in 1975. Since that time, I have been primarily employed in the  
12 utility industry. I held various positions in the accounting, customer service  
13 and gas supply areas of Western Resources, Inc. In December 1997, I  
14 became an employee of KGS. I initially served as Director of Gas Supply with  
15 responsibility for the administration, acquisition, and negotiation of new gas  
16 supply, transportation, and storage contracts for the Company. I subsequently  
17 became Vice President, Western Region, Transmission and Gas Supply with  
18 responsibility for the distribution operations of the western region of KGS.  
19 While in that position, I assumed responsibilities related to the Gas Supply,  
20 Transmission Operations, Transportation Services and FERC Regulatory

1 Departments of KGS. In January 2005, I was appointed to my current  
2 position.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS**  
4 **CORPORATION COMMISSION ("KCC" OR "COMMISSION")?**

5 A. Yes. I testified before this Commission in Docket No. 98-KGSG-475-CON. I  
6 also submitted prefiled testimony in Docket No. 03-KGSG-602-RTS and our  
7 last rate case, Docket No. 06-KGSG-1209-RTS.

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

9 A. My testimony provides an overview of KGS's operations. I introduce our  
10 Company witnesses in this case and identify the factors driving the need for  
11 our requested rate increase. Detailed financial information underlying the  
12 request will be provided by the Company's other witnesses. I will provide a  
13 brief description of the costs we have incurred that are requiring us to file this  
14 rate case and the steps we have been taking to maintain our expenses at a  
15 level appropriate to provide safe and reliable natural gas deliveries to our  
16 customers. Moreover, I will discuss the performance metrics we review to  
17 ensure that we continue to provide quality customer service in a safe efficient  
18 manner. I will also provide a brief description of some of the various rate  
19 design proposals that we have included in this filing.

20 **Q. WHAT IS THE LEVEL OF YOUR PROPOSED REVENUE INCREASE?**

21 A. We are requesting an overall revenue increase of approximately \$32.7  
22 million. This is the net result of increasing our current base rates by \$50.7  
23 million while rebasing the \$18 million currently collected through our Gas  
24 System Reliability Surcharge ("GSRS") (\$10.9 million) and our Ad Valorem  
25 Surcharge Rider ("AVSR") (\$7.1 million). The \$18 million attributable to these

1 riders will be moved into base rates. The two riders, in part, have enabled  
2 the Company to extend the time for filing a new rate case.

3 **II. WITNESSES**

4 **Q. PLEASE INTRODUCE THE KGS WITNESSES WHO WILL BE PROVIDING**  
5 **DIRECT TESTIMONY IN THIS CASE.**

6 A. In addition to my testimony, KGS will present the direct testimony of ten (10)  
7 other witnesses.

8 David Dittmore - Manager of Regulatory Affairs for KGS will sponsor the  
9 Company's proposal to implement a Revenue Normalization Adjustment  
10 ("RNA") mechanism. The RNA is a decoupling mechanism that will provide  
11 KGS a better opportunity to recover its authorized revenue requirement. Mr.  
12 Dittmore will also testify regarding certain adjustments to rate base and the  
13 Company's income statement.

14 Brenda Storbeck - Manager of Regulatory Affairs at KGS sponsors the  
15 Minimum Filing Requirements ("MFR") Schedules 3 through 11, 12C and 13  
16 through 17 and certain adjustments identified in her testimony.

17 Paul Raab - Independent economic consultant sponsors the class cost of  
18 service study we relied upon to develop proposed new rates. He sponsors the  
19 Company's weather normalization and customer annualization adjustments.  
20 Mr. Raab also explains and sponsors the Company's proposal splitting the  
21 current general service ("GSS") rate class into three separate classes,  
22 combining several other classes, and the corresponding rate design for each  
23 class, as well as providing his perspective on revenue normalization  
24 mechanisms.

25 Dr. Ronald E. White - Chairman and Senior Consultant of Foster Associates,  
26 Inc., presents a depreciation study conducted at our request. As a result of

1 the study, Dr. White recommends adjustments in the Company's depreciation  
2 rates.

3 Bruce H. Fairchild – A Principal in Financial Concepts and Applications, Inc.,  
4 testifies regarding KGS's capital structure, a reasonable cost of equity, and the  
5 overall cost of capital that should be used to set KGS's rates.

6 Lorna Eaton - Rates Analyst II in Regulatory Affairs at KGS sponsors several  
7 rate base and income statement adjustments including payroll adjustments,  
8 annualized and proposed annualized depreciation adjustments and other  
9 miscellaneous adjustments.

10 Stacey Borgstadt - Manager of Rates and Regulatory Analysis for the ONEOK  
11 Distribution Companies of ONEOK, Inc. will sponsor Schedules 12A and 12B  
12 and adjustments related to corporate allocations and compensation.

13 David Roth – Senior Vice President of ONEOK, Inc. will provide testimony  
14 regarding the Company's compensation and benefit plans.

15 John Ellerman – Compensation Consultant, will provide testimony as to why  
16 placing some of the employees and executives pay at risk through an  
17 incentive compensation program is consistent with industry practices and  
18 provides benefits to both customers and the utility. He will also provide  
19 testimony showing KGS's total compensation (base plus variable) for its  
20 employees is comparable to the market average for reasonable total  
21 compensation.

22 Justin Clements - Rates Analyst II in Regulatory Affairs at KGS sponsors  
23 Schedule 18 and explains the proposed tariff modifications necessary to  
24 implement the requested rate changes and proposed changes to the  
25 Company's General Terms and Conditions ("GTC").

26 **III. KGS'S BUSINESS OPERATIONS**

1 **Q. PLEASE DESCRIBE KGS's BUSINESS OPERATIONS.**

2 A. KGS currently serves more than 630,000 natural gas customers in 360  
3 Kansas communities. Our customer base consists of approximately 576,000  
4 residential customers, 50,000 non-residential sales customers and 5,400  
5 transportation customers. We have a Kansas-based work force of  
6 approximately 975 employees. Our utility plant includes over 12,700 miles of  
7 distribution and transmission mains. I have included a map of our service  
8 territory as Exhibit BOD 1.

9 **IV. FACTORS WHICH REQUIRE KGS TO FILE THIS RATE APPLICATION**

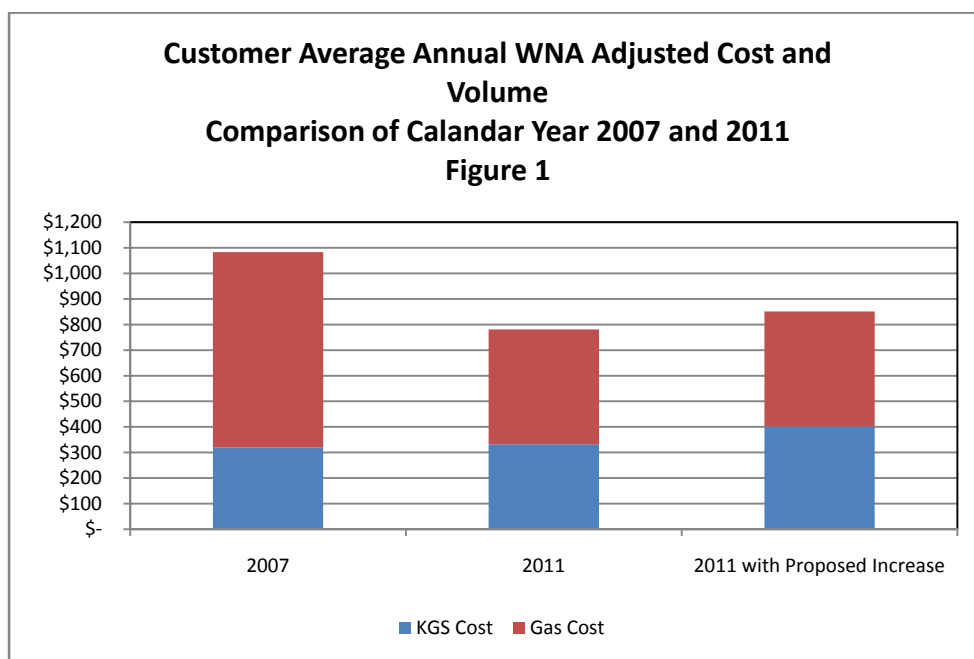
10 **Q. WHAT ARE THE FACTORS REQUIRING KGS TO FILE THIS RATE**  
11 **APPLICATION?**

12 A. No single factor predominates. Rather, this case reflects the cumulative  
13 impact of changes in costs, investments and consumption we have  
14 experienced in the six years since our last rate case. Specifically, we have  
15 experienced general increases in labor, health care and pension costs. We  
16 have invested over \$250 million in our transmission and distribution plant.  
17 Also, declining residential sales have negatively impacted our revenue stream.

18 **Q. MR. DIXON, THE COMPANY'S REQUEST IN THIS FILING REPRESENTS**  
19 **AN INCREASE OF APPROXIMATELY \$32.7 MILLION ABOVE ITS**  
20 **CURRENT CHARGES. HOW WILL THIS INCREASE IMPACT THE**  
21 **OVERALL COST OF NATURAL GAS SERVICE TO KGS'S RESIDENTIAL**  
22 **CUSTOMERS?**

23 A. Since our last rate case, which was based on a test period ending December  
24 31, 2005 and which resulted in the current rates becoming effective in January  
25 2007, our residential sales customers' annual total bills have declined. Even  
26 with our requested increase, residential customers' bills will remain below

1 2007 levels. This result, of course, is primarily attributable to the significant  
2 reduction in natural gas prices that has occurred in the intervening time which  
3 is demonstrated in Figure 1 below. Since 2007, on a weather normalized  
4 basis, the total annual residential customer's bill has declined from \$1,020 to  
5 \$728. In 2007, the residential customers paid \$712 for the natural gas portion  
6 of their annual bill. For the 2011 test year, that portion of the annual bill was  
7 \$413. Customers have been able to benefit from this reduction in gas costs  
8 as the reduced costs are passed on to sales customers through our Cost of  
9 Gas Rider ("COGR"). While it is difficult to predict what the future price of  
10 natural gas will be, based upon Energy Information Administration forecasts,  
11 we expect that the continuing growth in natural gas production will ensure a  
12 readily available supply of natural gas for many years at reasonable prices.



13 **V. STEPS TAKEN BY KGS TO MANAGE EXPENSES**

14 **Q. WHAT STEPS HAS KGS TAKEN TO CONTROL ITS COSTS IN**  
15 **DELIVERING NATURAL GAS TO ITS CUSTOMERS?**

1 A. As we have been doing since KGS separated from Westar Energy in 1997,  
2 KGS has looked for prudent ways to increase operating efficiencies and hold  
3 down costs without sacrificing customer service. We have continued our  
4 efforts to mitigate increases in health care and retirement costs. We have  
5 expanded the use of automated meter reading, negotiated new labor  
6 agreements with provisions to improve workforce utilization, improved  
7 dispatch technologies and consolidated dispatch operations.

8 **VI. PIPELINE SAFETY INITIATIVES**

9 **Q. SAFETY IS OBVIOUSLY A TOP PRIORITY FOR THE COMPANY'S**  
10 **OPERATIONS. WOULD YOU PLEASE INDICATE HOW SAFETY**  
11 **INITIATIVES AND REGULATORY DEVELOPMENTS HAVE IMPACTED**  
12 **KANSAS GAS SERVICE'S OPERATIONS?**

13 A. KGS has always had a strong commitment to provide safe and reliable service  
14 to our customers. We strive to develop a safety culture that goes beyond  
15 compliance. Together with all of the ONEOK entities, it is our intention to be a  
16 leader in the implementation of environmental, health and safety programs.  
17 KGS is proactive in promoting safety for our customers, employees and the  
18 communities we serve. The Commission has also been at the forefront in  
19 promoting natural gas pipeline safety in Kansas and has instituted regulatory  
20 standards that have exceeded federal minimum requirements, providing an  
21 important leadership role as well.

22 Having emphasized our commitment to safety, it is important to identify the  
23 various safety initiatives that have been adopted over the last several years  
24 and to recognize the significant changes in our regulatory environment. As  
25 you would expect, these initiatives and changes have required an increasing  
26 commitment of resources and personnel.



1 With the passage of the Pipeline Safety Improvement Act of 2002, the Pipeline  
2 and Hazardous Materials Safety Administration (PHMSA) put into place a risk-  
3 based regulatory approach for natural gas transmission lines called "Integrity  
4 Management" in 2004. KGS developed an integrity management plan for its  
5 transmission system, which increased the physical inspection of its pipeline  
6 system in high consequence areas and provided more frequent patrolling to  
7 mitigate possible safety threats, such as damage by other parties.

8 **Q. HAVE SIMILAR INITIATIVES BEEN DEVELOPED FOR DISTRIBUTION**  
9 **LINES?**

10 A. Yes. Congress passed the Protection, Enforcement, and Safety Act (PIPES)  
11 in 2006. This legislation formalized integrity management minimum standards  
12 for distribution lines. Several initiatives were identified such as leakage  
13 detection surveys, performance measures, leak management and standards  
14 for the repair, rehabilitation and replacement of pipeline and other facilities.  
15 This legislation has also required operators to identify risks, evaluate and rank  
16 them and develop measures to address them. With Commission guidance  
17 and oversight, KGS had instituted its own programs for managing distribution  
18 integrity long before the passage of this legislation.

19 **Q. WOULD YOU DESCRIBE OTHER INITIATIVES THAT HAVE BEEN**  
20 **INSTITUTED BY KGS?**

21 A. On December 3, 2009, PHMSA published a rule related to Control Room  
22 Management. KGS responded to this rule by expanding and improving its  
23 control room management. Along with our expanded control room in Overland  
24 Park, which monitors system pressures and facilities throughout the  
25 distribution and transmission system, KGS added personnel, increased  
26 training and responsibility, and implemented scheduling changes to address

1 fatigue mitigation. These measures continue to allow KGS to maintain a high  
2 quality control room operation twenty-four hours per day seven days a week.  
3 Additional enhancements are in the process of being instituted before August  
4 1, 2012, to comply with the expedited implementation process required by  
5 PHMSA.

6 KGS has also expanded its efforts to remove bare steel service lines and has  
7 proposed a new initiative to expedite the removal of cast iron mains.

8 The Company has also adopted an environmental, safety and health program  
9 to enhance our performance related to incidents, providing a safe working  
10 environment and in affording prompt medical treatment in the event of an  
11 accident. Other programs also highlight operating procedures, inspection and  
12 maintenance plans, and risk-based mechanical-integrity programs.  
13 Additional programs emphasize contractor management to ensure that we  
14 select firms having excellent operating practices.

15 **Q. HAVE THERE BEEN ANY FURTHER REGULATORY DEVELOPMENTS?**

16 A. Congress passed the Pipeline Safety, Regulatory Certainty & Jobs Creation  
17 Act of 2011. This requires PHMSA to review procedures relating to cast iron  
18 pipe. One outcome has been the issuance of an advisory bulletin for  
19 operators to conduct a comprehensive review of their cast iron distribution  
20 pipelines and consider enhancements to cast iron replacement programs.  
21 This advisory has resulted in a request by KGS to develop an enhanced cast  
22 iron replacement program with associated rate treatment to permit an  
23 accelerated time table for replacing its cast iron pipe in Docket No. 12-KGSG-  
24 721-TAR.

25 **Q. HOW WILL KGS MEET ITS CAPITAL INVESTMENT OBLIGATIONS TO**  
26 **MEET THESE FUTURE SAFETY INITIATIVES?**

1 The Commission has been supportive of the efforts KGS has made in  
2 implementing safety programs over the past several years. Although KGS  
3 has only filed two rate cases over the last fifteen years, its safety efforts have  
4 had the support of the Commission through the Gas Safety and Reliability  
5 Policy Act and the implementation of the GSRS tariff. For future investments  
6 to be made on reasonable terms, KGS needs to be able to recover its costs in  
7 a timely manner and be given a fair opportunity to earn its authorized return.  
8 Investor support will be crucial to this effort, and the revenue KGS is allowed  
9 to collect will affect its financial integrity and continued support from the  
10 investment community. To sustain its financial integrity, KGS will require  
11 timely rate adjustments and a flexible rate recovery mechanism to permit  
12 accelerated investment in safety and reliability measures.

13 We have requested a revenue normalization adjustment mechanism in this  
14 case to have a reasonable opportunity to recover our authorized revenue on  
15 an average per customer basis as decided by this Commission on an ongoing  
16 basis. Approval of this mechanism would send a signal to all stakeholders that  
17 the Commission recognizes the need for KGS to maintain normalized  
18 revenues as it sustains capital investment during future periods when safety  
19 and reliability obligations must be met with additional capital spending.  
20 Although some may argue that the filing of more frequent rate cases is an  
21 alternative to instituting a revenue normalization rate mechanism, the rate  
22 case process is very time consuming. It requires all parties to use significant  
23 human resources. It is costly. It does not resolve the issue of regulatory lag,  
24 which could be an impediment for meeting financial obligations during periods  
25 in which the utility is faced with having to pay for increasing capital  
26 expenditures. With the filing of a rate case, there is generally a 240-day

1 period before relief is granted. The revenue normalization mechanism we  
2 have requested would permit the Company to recover future revenues  
3 consistent with the Commission decision in this case. The RNA will provide us  
4 a reasonable opportunity to earn our authorized return on equity if we manage  
5 our costs, especially during these next few years when significant investment  
6 relating to the previously mentioned safety initiatives are expected to be  
7 incurred.

8 **VII. QUALITY OF SERVICE**

9 **Q. WHAT IS KGS'S APPROACH WITH RESPECT TO QUALITY OF SERVICE?**

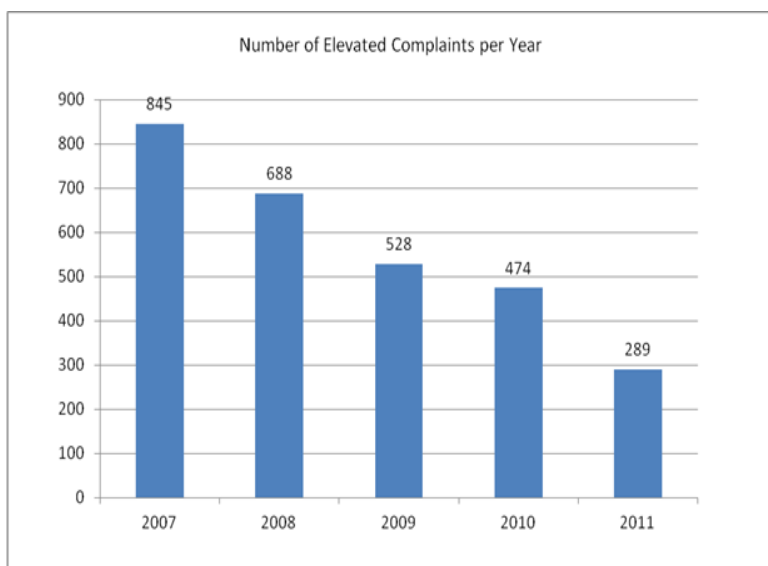
10 A. KGS is committed to operating in a safe, reliable and environmentally  
11 responsible manner. It is that philosophy that drives our commitment to  
12 quality of service and is reflected in our strong emphasis on customer  
13 service. We are customer-focused. We are accessible to answer questions,  
14 provide accurate information, and resolve problems by providing our  
15 customers access through multiple channels including telephone, interactive  
16 voice response ("IVR"), website, email, social media and facsimile. We are  
17 concerned about the quality of service we provide and we care about meeting  
18 our customers' service needs and expectations.

19 **Q. HOW DOES KGS MEASURE CUSTOMER SERVICE PERFORMANCE?**

20 A. KGS tracks a number of customer service and safety metrics that measure the  
21 Company's performance and, more importantly, help us to understand where  
22 we are in terms of meeting our customers' needs and how to continually  
23 improve satisfaction levels. For example, we have an established goal related  
24 to our answered call rate. Although no longer required to be filed with the  
25 Commission, we continue to exceed the answered call rate metric of 95%

1 established by the Commission in 1997 in Docket No. 97-WSRG-486-MER. In  
2 2009, 2010 and 2011, our answered call rates were 97.6%, 95.39% and  
3 96.7%, respectively. Our customer service representatives are available to  
4 speak with customers 7:00a.m. – 7:00p.m., Monday through Friday and our  
5 IVR system and interactive website are available 24 hours a day, 7 days a  
6 week, offering customers the opportunity to conduct their business at the time  
7 most convenient for them. Another customer service metric we track is the  
8 number of formal and informal complaints made by our customers with the  
9 Public Affairs and Consumer Protection ("PACP") division of the Commission,  
10 Better Business Bureaus, or direct correspondence to the Company. As  
11 shown in Figure 2, between 2007 and 2011, the number of complaints  
12 decreased by approximately 65 percent.

13 Figure 2



14 Similarly, the Company tracks several safety metrics related to our field  
15 operations. As previously discussed in my testimony, we have a responsibility  
16 to provide safe and reliable natural gas service to our customers and, to help  
17 meet that responsibility, we track certain safety related measures such as the

1 average response time to leak calls, the number of non-hazardous class three  
2 leaks in inventory and the number of leaks repaired. We also closely monitor  
3 damages caused by third parties to our system. Additionally, we track metrics  
4 related to employee safety such as preventable vehicle incidents, recordable  
5 work-related injuries and illnesses and their severity. As an example of the  
6 improvements made in our operations over the years, the number of non-  
7 hazardous class three leaks has declined by over 80% since ONEOK acquired  
8 the gas assets from Western Resources in 1997. This information  
9 demonstrates that KGS has a strong focus on customer service and  
10 operational safety.

11 **Q. HOW DOES YOUR COMPENSATION PLAN ENABLE YOU TO MEET**  
12 **ONEOK'S SAFETY AND CUSTOMER SATISFACTION OBJECTIVES AND**  
13 **GOALS?**

14 A. As I have indicated, the Company is committed to ensuring a strong safety  
15 and customer service ethic. Safety training and instruction occurs on a regular  
16 basis, and the Company has made a pledge to being a leader in safety best  
17 practices. This requires a highly motivated workforce adhering to compliance  
18 procedures that permit safe operations for the benefit of our customers and  
19 employees. We have implemented a salary structure that rewards employees  
20 for their performance. Safety and customer satisfaction are critical  
21 components in the individual employee evaluation process. For non-  
22 bargaining unit employees, the compensation plan includes base pay, short  
23 term incentive compensation and stock awards. Certain employees also  
24 receive long-term incentive compensation.

25 Employees are compensated, in part, through a combination of overall  
26 corporate performance and individual performance. If the Company meets its

1 financial goals, there is a pool available for funding the variable portion of  
2 employees' compensation. That pool is allocated to employees based on their  
3 individual performance relative to goals established for them. Those individual  
4 employees' goals include goals related to safety and customer service. I  
5 believe that this policy benefits the Company's shareholders, employees and  
6 customers. It is important to note that we have been able to pay our  
7 employees a fair compensation, which is made up of base pay and variable  
8 pay, and when taken as a whole, approximates the median level of pay for  
9 equivalent positions in other organizations with which we compete for talent.  
10 By motivating our employees to achieve positive financial results through  
11 variable pay, shareholders and customers benefit. Employees are motivated  
12 to hold down costs which, in turn, helps earnings. It also benefits customers  
13 through reduced costs and fewer rate cases. To protect against a process  
14 that could potentially focus solely on cost savings at the expense of safety, the  
15 Company also sets goals for safety on a company-wide basis.

16 **VIII. RNA MECHANISM**

17 **Q. PLEASE SUMMARIZE THE RNA PROPOSAL INCLUDED IN THIS**  
18 **APPLICATION.**

19 A. As previously noted, KGS has requested approval of a Revenue Normalization  
20 Adjustment mechanism. Company witnesses David Dittmore and Paul Raab  
21 describe the RNA and explain how it will be implemented. In summary, the  
22 RNA mechanism is a form of decoupling which eliminates the relationship  
23 between the level of consumption and revenue. If approved, it will replace the  
24 Weather Normalization Adjustment Rider ("WNA"). The RNA is being  
25 proposed because KGS's revenue stream is heavily dependent upon  
26 throughput. In the last KGS rate proceeding, 54% of the KGS residential

1 revenue requirement was designed to be derived from revenue generated  
2 from throughput. As indicated in David Dittmore's testimony, KGS's weather-  
3 normalized residential sales per customer have decreased significantly from  
4 the level used to establish base rates in our last rate case and has resulted in  
5 a significant reduction in revenue. The revenue loss in 2011 was \$7.7 million.

6 **IX. REVISED RATE SCHEDULES**

7 **Q. IS THE COMPANY PROPOSING TO CHANGE ANY OF ITS RATE**  
8 **SCHEDULES?**

9 A. Yes. The rate design proposed by the Company would divide the General  
10 Service Sales class into three separate rate classes. The Company is also  
11 proposing to combine rate schedules GTK and STk into a new rate schedule.  
12 In addition, the Company is proposing to combine rate schedules GTt and STt  
13 into a new rate schedule. These proposals are further addressed in the  
14 testimony of Company witness Paul Raab. Company witness Justin Clements  
15 will sponsor the new rate schedules.

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

17 A. Yes.



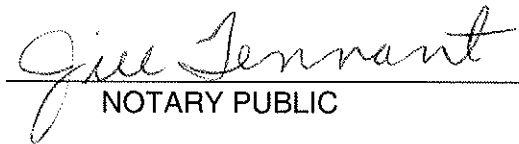
**VERIFICATION**

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF JOHNSON            )

BRADLEY O. DIXON, being duly sworn upon his oath, deposes and states that he is President 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.

  
\_\_\_\_\_  
BRADLEY O. DIXON

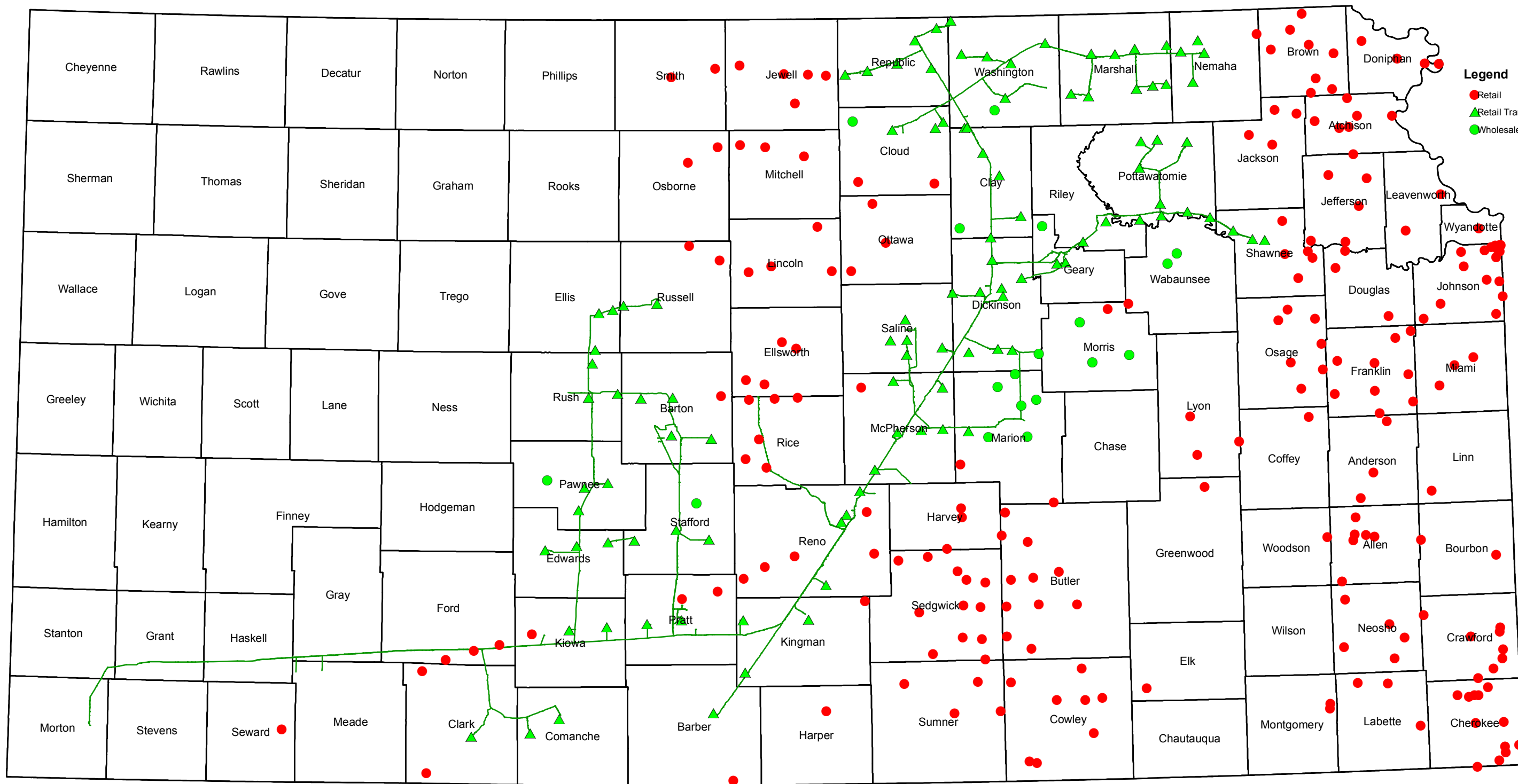
Subscribed and sworn to before me this 14th day of May 2012.

  
\_\_\_\_\_  
NOTARY PUBLIC

My Appointment Expires:  
June 21, 2014




Kansas Gas Service  
Transmission System and Distribution Cities



**Legend**

- Retail
- ▲ Retail Transmission
- Wholesale Transmission

|   |  |                 |
|---|--|-----------------|
|  <b>KANSAS GAS SERVICE</b><br><small>A DIVISION OF ONEOK</small> | Title: Kansas Gas Service Transmission and Cities Served |                 |
|   | Legal:   | Coordinates x,y |
|   | Town:  | Service Group:  |
|   | Scale: 1"=146557'  | By: oke03096    |