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

DARRELL D. BLEDSOE

ON BEHALF OF

KANSAS GAS SERVICE

A DIVISION OF ONEOK, INC.

DIRECT TESTIMONY

OF

DARRELL D. BLEDSOE

KANSAS GAS SERVICE

DOCKET NO. 06-KGSG-____-RTS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Darrell D. Bledsoe. 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), as a manager in the Rates and Regulations Department.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I graduated from Washburn University in 1966 with a degree in Business Administration and from Kansas State University in 1971 with a degree in Accounting. I have worked for KPL, Western Resources, and now Kansas Gas Service for the past 21 years. Prior to that, I worked in public accounting for 18 years.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION ("COMMISSION")?

A. Yes. I most recently filed testimony before the Commission in Docket No. 05-ATMG-643-GIG.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring selected schedules in Sections 6 and 8 and all of the schedules in

Section 17 of the Minimum Filing Requirements (MFRs). I also sponsor certain adjustments in Section 9 that are necessary to normalize operating revenues and expenses for the test year (twelve months ended December 31, 2005).

SECTION 6

Q. PLEASE IDENTIFY AND EXPLAIN THE SCHEDULE IN SECTION 6 THAT YOU ARE SPONSORING.

A. I am sponsoring Schedule 6-H which presents the Cash Working Capital included in rate base. Cash must be available to operate and manage utility operations. There is a lag between when the Company pays for the products and services required to provide services to its customers and when payment is received from those customers. Cash working capital refers to the funds that must be available during the lag between the points in time when the Company pays for those products and services (expense lead) and when payment is received (revenue lag). The investors supply those funds when the revenue lag exceeds the expense lead.

Q. HOW IS CASH WORKING CAPITAL DETERMINED?

A. Often, a 45-day rule of thumb approach is used, i.e., the average delay or lag between the time of a utility's expenditures necessary to provide service and its receipt of payment for those services is assumed to be 45 days. In this case, we conducted a comprehensive lead/lag study to determine the net lead/lag days. I should note that this study required literally hundreds of hours to complete and involved the analysis of thousands of accounts, expenditures and documents. As a result of this study, we determined that the revenue lag was 43.41 days. The expense leads for various categories will be compared to that revenue lag to determine the cash working capital requirement.

Q. PLEASE EXPLAIN HOW THE REVENUE LAG OF 43.41 DAYS WAS DETERMINED.

A. A study of Kansas Gas Service customer bills was prepared comparing the service periods for which the bills were issued with the time when payments were received. The study included accounts billed for services during the test year and the payments that were made on those accounts. The service period dates used in the study were the midpoints between the current meter-read dates and the meter-read dates for the previous month. The payment dates were the dates that payments were received. This study resulted in the following lags for the indicated classes of customers:

Residential	$524.8M	694,453 services	45.53 days lag
General Service	136.0M	53,451 services	42.98 days lag
Sales for Resale	.8M	3 services	33.23 days lag
Transportation	32.1M	2,280 services	51.23 days lag
AAGS	235.9M	9 accounts	37.90 days lag
Weighted Lag			43.41 days lag

Q. PLEASE IDENTIFY THE EXPENSE CATEGORIES IN YOUR CASH WORKING CAPITAL STUDY.

A. The expenses were placed in eight categories: labor, labor attends, purchased gas expense, payable, supplies and expenses, general taxes, income taxes and interest on long term debt.

Q. LABOR IS THE FIRST EXPENSE CATEGORY ON SCHEDULE 6-H. PLEASE EXPLAIN HOW THE EXPENSE LEAD OF 10.82 DAYS WAS DETERMINED.

A. Every pay period during 2005 for both the bargaining employees and the non-bargaining employees was listed showing the service dates for each pay period and the dates the employees within those groups were paid. The service period lead for each pay period was the midpoint between the last day of the current pay period and the last day of the previous pay period. Then, the number of days between the last day of the pay period and the day that payment was made to the employees was added to the service period lead. This combined lead time was determined for each of the 26 two-week pay periods for the bargaining employees and for each of the 24 semi-monthly pay periods for the non-bargaining employees. The lead days for the pay periods for the bargaining employees were totaled and divided by the 26 two-week pay periods resulting in an average lead time of 12.85 days. The lead days for the non-bargaining employees were totaled and divided by the 24 semi-monthly pay periods resulting in an average lead time of 7.44 days. These lead days were then multiplied by the ratio of that group's salaries included in operating and maintenance expenses to total salaries included in operating and maintenance expenses. This weighted number of lead days was then adjusted for a float period of a minus .04 days to recognize the time between the payment date and the date when the funds were taken from the Company's bank account.

Q. FOR THE SECOND EXPENSE CATEGORY OF LABOR ATTENDS, PLEASE EXPLAIN HOW THE LEAD OF 119.64 DAYS WAS DETERMINED.

A. This expense category includes incentives, 401k matching, benefit stock awards and the employee benefit reserve. The lead days were determined by either the number of days between a service period midpoint and the funding date or the number of days from when the expense was incurred and the funding date.

Q. FOR THE THIRD EXPENSE CATEGORY OF PURCHASED GAS EXPENSE, PLEASE EXPLAIN HOW THE LEAD OF 31.26 DAYS WAS DETERMINED.

A. Every purchased gas invoice paid during July 2004 through June 2005 was evaluated, comparing the midpoint of the service period to the date that the payment was made by either wire or check. Each invoice was multiplied times its lead days to determine the weighted dollars for that individual invoice. The payments and the weighted dollars during this period were summed. Then, the sum of the weighted dollars was divided by the sum of the payments, resulting in 31.26 weighted lead days for purchased gas expenses.

Q. FOR THE FOURTH EXPENSE CATEGORY OF PAYABLES, PLEASE EXPLAIN HOW THE LEAD OF 32.39 DAYS WAS DETERMINED.

A. A sample of expenses originating from accounts payable during a study period July 2004 through June 2005 was performed. The expenses charged on credit cards were sampled separate from the remaining accounts payable transactions. Lead days for the individual charges on credit cards were the difference between the transaction date and the payment date. For the remaining accounts payable transactions, the lead days for each payment were determined by comparing the midpoint of the service period with the date that payment was made. Weighted lead days were computed for credit cards and accounts payable samples. These weighted lead days were multiplied by the ratios of credit card and accounts payable payments to total payments to compute the accounts payable weighted lead days of 32.39 days.

Q. FOR THE FIFTH EXPENSE CATEGORY OF SUPPLIES AND EXPENSES, PLEASE EXPLAIN HOW THE LEAD OF 72.30 DAYS WAS DETERMINED.

A. This expense category includes expenses that could not be otherwise categorized. These expenses were contract labor, supplies and expenses, shared services, corporate expenses and other (non-cash/excluded) expenses. The lead days for contract labor and supplies and expenses were developed in the accounts payable study. During the period July 2004 through June 2005, there were four payments for shared services. For each payment, a determination was made of the number of days between the midpoint of the service period and the date paid. Each payment was multiplied by its lead days to determine the weighted dollars. The sum of the weighted dollars was divided by the sum of the payments to determine the lead days for this expense. Corporate expenses for the period July 2004 through June 2005 were placed into three groups. These groups were accounts payable, supplies and expenses and other (non-cash/excluded) expenses. The corporate expenses from accounts payable were assigned the lead-day number that was developed for the Kansas Gas Service accounts payable. The supplies and expenses were assigned the lead-day numbers that were assigned to similar Kansas Gas Service expenses. Weighted dollars were developed by multiplying these three groups by their respective lead-day numbers and then dividing the sum of the weighted dollars by the sum of the study period corporate amounts.

Q. FOR THE SIXTH EXPENSE CATEGORY OF GENERAL TAXES, PLEASE EXPLAIN HOW THE LEAD OF 197.74 DAYS WAS DETERMINED.

A. Included in this category of expenses are ad valorem taxes, state and federal unemployment taxes and FICA taxes. The lead days were determined for each of these types of taxes by comparing the midpoints of the taxing periods with the dates that the taxes were paid. The weighted dollars were determined by multiplying each tax by its lead days. The weighted number of lead days for this expense category was determined by dividing the sum of the weighted dollars by the sum of the taxes.

Q. FOR THE SEVENTH EXPENSE CATEGORY OF INCOME TAXES, PLEASE EXPLAIN HOW THE LEAD OF 37.38 DAYS WAS DETERMINED.

A. Current income taxes are included in the cash working capital study because they are the income taxes that are paid in cash. The deferred income taxes are a non-cash expense. Corporate estimated tax payments for the Company are required on April

15, June 15, September 15 and December 15. These dates were compared to the midpoint of each calendar quarter to determine the lead-days for each quarter. The sum of these individual quarter lead days was divided by four to develop the weighted lead days for income taxes.

Q. FOR THE EIGHTH EXPENSE CATEGORY OF INTEREST ON LONG TERM DEBT, PLEASE EXPLAIN HOW THE LEAD OF 75.26 DAYS WAS DETERMINED.

A. The Company has long term debt that requires either quarterly or semi-annual interest payments. A schedule of the interest payments made during the period July 2004 through July 2005 was prepared showing the amounts of the payments, the payment dates and the start and ending dates of those interest payment periods. The lead-days for each of the interest payments during the period are the difference between the midpoint of the interest payment periods and the payment dates. The weighted dollars were calculated by multiplying the individual interest payments by their lead-days. The sum of the weighted dollars was divided by the sum of the interest payments to arrive at the lead days for this category of expenses.

Q. PLEASE EXPLAIN HOW THE REVENUE LAG AND THE EXPENSE LEADS DISCUSSED ABOVE WERE USED IN DETERMINING THE CASH WORKING CAPITAL REQUIREMENT.

A. For each of the expense categories described above, net lead/lag days were determined by subtracting the expense lead days from the revenue lag days. In some expense categories, the revenue lag exceeded the expense lead days and in other expense categories the revenue lag was less than the expense lead days.

Q. PLEASE EXPLAIN HOW THESE NET LEAD/LAG DAYS ARE USED.

A. The net lead/lag days are divided by the number of days in an average year (365.25 days) to determine the percent of a total year in which each expense category requires or provides working capital. The positive or negative characteristic of the individual expense category is maintained as part of the calculation. These percentages represent the portion of total year expenses that will be included in the cash working capital requirement.

Q. PLEASE DESCRIBE THE EXPENSES USED IN THIS CASH WORKING CAPITAL STUDY.

A. The expenses are the adjusted test year expenses for each of the expense categories.

Q. PLEASE EXPLAIN HOW THE PERCENT OF TOTAL YEAR EXPENSES IS USED IN DEVELOPING THE CASH WORKING CAPITAL REQUIREMENT.

A. The expenses included in each category are multiplied by applicable percent of total year lead or lag to determine the cash working capital required or provided by that category of expense. If the percent of total year is positive, the revenue lag days exceed the expense lead days and the resulting number is the amount of cash working capital required for that category of expense. Conversely, if the percent of total year is negative, the expense lead days exceed the revenue lag days and the resulting number is the amount of cash working capital that is provided for that category of expense; this reduces the total cash working requirement. The cash working capital required, before offsets, is $15,902,385.

Q. PLEASE DESCRIBE THE OFFSETS THAT REDUCE THE CASH WORKING CAPITAL REQUIREMENT.

A. The bills to customers include amounts for sales taxes and franchise fees. The receipt of payments from the customers provide a source of cash working capital until these taxes or fees are remitted to the State of Kansas, the cities or the counties for which we bill and collect these taxes and fees. These taxes and fees are not recorded as expenses, but as liabilities at the time they are billed to the customers. The customer bills used in determining the revenue lag includes these taxes and fees, but they are not included in the expense lead categories. There needs to be an offset for the cash working capital provided by these taxes and fees.

Q. PLEASE DESCRIBE HOW THE OFFSETS FOR SALES AND USE TAX PAYABLES AND FRANCHISE FEE PAYABLES WERE DETERMINED.

A. The bills to the customers are prepared daily throughout the month. The customers then have varying lengths of times to pay those bills. The cash working capital provided by these taxes and fees is not available to the Company until payment is received from the customers.

Q. WHAT IS THE SOURCE FOR THE OFFSETS FOR LEGAL CONTINGENCIES AND WORKERS COMPENSATION RESERVES?

A. End of year book balances.

Q. AFTER OFFSETS, WHAT IS THE CASH WORKING CAPITAL REQUIREMENT INCLUDED IN RATE BASE?

A. $11,324,676.

SECTION 8

Q. PLEASE IDENTIFY AND EXPLAIN THE SCHEDULE IN SECTION 8 THAT YOU ARE SPONSORING.

A. I am sponsoring Schedule 8-F which presents the sales usage, revenues and customer data for the 12 months ended December 31, 2002, 2003, 2004 and 2005. The schedule displays information for both sales and transportation customers.

SECTION 9

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

A. I am sponsoring the following adjustments contained in MFR Schedule 9-B:

(1) Include Amounts Billed to Customers in Test Year Revenues (Adjustment No. IS 1);

(2) Eliminate Accrued and Unbilled Revenues and Expenses (Adjustment No. IS 2);

(3) Eliminate Deferred Weather Normalization Adjustment Revenues (Adjustment No. IS 3);

(4) Eliminate Billed Weather Normalization Adjustment Revenues (Adjustment No. IS 4);

(5) Eliminate ATSR Revenues and Annualize Ad Valorem Tax Expenses (Adjustment No. IS 5);

(6) As Available Gas Sales (Adjustment No. IS 6);

(7) Test Year Revenue Adjustments (Adjustment No. IS 7); and

(8) Eliminate COGR Revenues and Expenses (Adjustment IS 8).

Adjustment No. IS 1:
Include Amounts Billed to Customers in Test Year Revenues

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 1.

A. The test year revenues and gas costs per books include some December 2004 revenues and expenses and do not include some December 2005 revenues and expenses. The transportation and As Available Gas Sales (AAGS) accounts are billed after the current month's transactions are recorded and the books and records closed for the month. This results in the current month's transactions being recorded in the following month. This net adjustment eliminates the December 2004 transactions recorded in January 2005 and includes the December 2005 transactions recorded in January 2006. The adjustment increases test year operating income, before income taxes, by $720,255.

<u>Adjustment No. IS 2:</u>
Eliminate Accrued and Unbilled Revenues and Expenses

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 2.

A. The test year includes accrued and unbilled revenues and gas costs. This adjustment eliminates these accrued and unbilled revenues and gas costs from test year operating results. The adjustment decreases test year operating income, before income taxes, by $1,535,923.

<u>Adjustment No. IS 3:</u>
Eliminate Deferred Weather Normalization Adjustment Revenues

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 3.

A. Under Kansas Gas Service's Weather Normalization Adjustment (WNA), the difference in revenue resulting from the variance of actual weather from normal weather is recorded and deferred, as either an over-collected amount if the weather is colder than normal or an under-collected amount if the weather is warmer than normal. During the test year, the weather was generally warmer than normal. As a result, the net under-collected revenue deferred and recorded on the books and records of the Company during the test year relating to the WNA was $4,489,987. The billed WNA was $6,412,956. For test year purposes, the billed WNA must be netted against the deferred WNA. The resulting adjustment increases test year operating income, before income taxes, by $1,922,969.

Adjustment No. IS 4:
Eliminate Billed Weather Normalization Adjustment Revenues

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 4.

A. This adjustment eliminates the revenue billed (collected or refunded) through the WNA from the test year because that revenue is collected separate and apart from the base rates. The adjustment reduces test-year operating income, before income taxes, by $6,412,956.

Adjustment No. IS 5:
Eliminate ATSR Revenues and Annualize Ad Valorem Tax Expenses

Q. PLEASE EXPLAIN THE PURPOSE OF ADJUSTMENT NO. IS 5.

A. Adjustment No. IS 5 is intended to recover 2005 ad valorem tax expenses of $15,492,607 through base rates. This is accomplished by eliminating revenues billed under Kansas Gas Service's Ad Valorem Tax Surcharge Rider (ATSR) and annualizing ad valorem tax expenses. This adjustment reduces revenues by $4,947,729 and increases expenses by $251,287. This adjustment has negligible impact on customers because it merely updates base rates to recover ad valorem tax expenses that have previously been collected through the ATSR. The sum of these adjustments reduces test-year operating income, before income taxes, by $5,199,016.

Adjustment No. IS 6:
As Available Gas Sales

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 6.

A. In 1995, Kansas Gas Service received approval from this Commission to sell gas, which is available under long-term contracts, but which may not be required to meet customer needs during low-demand periods. These sales are made under the As

Available Gas Sales (AAGS) Service Schedule. Customers receive 75% of the program's revenues that remain after deducting purchase and transportation costs. This adjustment decreases operating income, before income taxes, by $6,631,832.

<u>Adjustment No. IS 7:</u>
Test Year Revenue Adjustments

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 7.

A. Several adjustments have been made to normalize test year revenues: out-of-period adjustments, contract minimum quantities, economic development credit and discounted rate annualization.

Out-of-Period Adjustments: These adjustments change test year revenues to reflect billing corrections applicable to services outside the test year or billing corrections outside the test year applicable to services provided during the test year. These adjustments increase operating income, before income taxes, by $316,073.

Contract Minimum Quantities: Test year revenues include revenues billed to customers that had not taken contract minimum quantities. The contract minimum revenues, as adjusted, were based on test year quantities under contracts that were either in effect at the end of the test year or added during the first two months of 2006. This adjustment decreases operating income, before income taxes, by $185,021.

Economic Development Credit: The test year revenues include a reduction for a credit to a customer served under an economic development and investment recovery agreement. This agreement terminated in December 2005. This adjustment increases operating income, before income taxes, by $2,070.

Discounted Rate Annualization: The revenues received from customers paying discounted rates were annualized for known and determinable rate changes through February 28, 2006. Revenues were also included in the test year for a customer to be connected after that date. This adjustment increases operating income, before income taxes, by $76,622.

This sum of these adjustments increases operating income, before income taxes, by $209,744.

Adjustment No. IS 8:
Eliminate COGR Revenues and Expenses

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS 8.

A. Gas costs are recovered dollar for dollar through Kansas Gas Service's Cost of Gas Rider (COGR). This adjustment eliminates both the revenues and expenses contained in the test year associated with the cost of gas. This adjustment nets to a $0 change in test year operating income, before income taxes.

SECTION 17

Q. PLEASE DESCRIBE THE SCHEDULES INCLUDED IN SECTION 17.

A. Schedule 17-A presents a Summary of Revenue by General Customer Classification. Column 2 contains the pro forma revenue from existing tariffs, column 3 has the revenue increase or decrease resulting from proposed tariffs, and column 4 shows the revenue from the proposed tariffs.

Schedule 17-B shows customer data, deliveries and revenues for each existing individual tariff. The test year numbers are shown, followed by summarized test year adjustments included in earlier sections of the MFRs, and then totaled to pro forma levels of customers, sales and revenues.

Schedule 17-C contains customer data, sales and revenues for each proposed tariff. The revenue section shows proposed revenues, pro forma test year revenues and the increase resulting from the proposed tariffs. The percent of increase was calculated by adding COGR revenue to the pro forma test year revenue. The revenue per unit was calculated by adding COGR revenue to the proposed revenue. The COGR revenue was determined by multiplying the test year pro forma sales by the weighted average cost of gas during the test year of $8.4809 per Mcf.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

DARRELL D. BLEDSOE, being duly sworn upon his oath, deposes and states that he is a Manager, Rates and Regulations 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.

Darrell D Bledsoe

DARRELL D. BLEDSOE

Subscribed and sworn to before me this 10th day of May 2006.

NOTARY PUBLIC

My appointment Expires:

NOTARY PUBLIC - State of Kansas
CATHY KUNCE
My Appt. Exp. 11/02/09