2012.05.18 15:26:58
Kansas Corporation Commission
/S/ Patrice Petersen-Klein

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 12-KGSG-835RTS

Received
on

MAY 18 2012

by
State Corporation Commission
of Kansas

DIRECT TESTIMONY

OF

BRENDA L. STORBECK

ON BEHALF OF

KANSAS GAS SERVICE

A DIVISION OF ONEOK, INC

DIRECT TESTIMONY

OF

BRENDA L. STORBECK

KANSAS GAS SERVICE

DOCKET 12-KGSG-___-RTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brenda L. Storbeck. 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. ("KGS" or the “Company”) as Manager in the Rates and Regulatory Department.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I graduated from University of Missouri, Kansas City with a degree in Bachelor of Science in Accounting. I am a Certified Public Accountant. Over the past seventeen years I have worked in various divisions within ONEOK, Inc and ONEOK Partners in roles that include Manager General Accounting, Director of Accounting and Manager Rates & Regulatory. Prior to that, I worked in public accounting firms in Kansas.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY AGENCIES?

A. Yes. I provided testimony in Docket RP09-352-000 before the Federal Energy Regulatory Commission on behalf of Midwestern Gas Transmission Company.

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 11, 12C and 13 through 17 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 KGS's accounting records as well as accounting data supplied by ONEOK, Inc. I also explain how the costs currently collected through the Ad Valorem Tax Surcharge Rider ("ATSR") ($7.1 million) and Gas System Reliability Surcharge ("GSRS") ($10.9 million) revenues are being moved into base rates and the surcharges will be reset. The effect of these adjustments is an actual revenue increase of $32.7 million ($50.7 million - $18 million).

Q. WHAT IS THE TEST YEAR FOR THIS FILING?

A. The test year is the twelve-month period ending December 31, 2011. Test year numbers have been adjusted for known and measurable changes.

Q. HOW DOES KGS 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.

II. EXPLANATION OF ADJUSTMENTS

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 12C Labor Capitalization Ratio

Section 13 Annual Report

Section 14 Additional Information

Section 15 Additional Information

Section 16 Financial Statements

Section 17 Summary of Revenue by General Customer Classification

Q. PLEASE DESCRIBE THE STRUCTURE OF YOUR TESTIMONY.

A. I have structured my testimony in three parts. Part One provides an explanation of the MFR schedules. Part Two lists a table of witnesses that support the Pro Forma Adjustments to the test-year data. Part Three includes the Pro Forma Adjustments that I am sponsoring.

A. PART ONE: 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 under current rates.

Q. WHAT IS KGS'S CALCULATED RATE OF RETURN?

A. KGS's calculated rate of return under current rates is 4.5515%.

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

A. The required rate of return is applied to Pro Forma 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. Pro Forma Rate Base on line 5 is $772,431,396; Pro Forma Revenues on line 6 is $258,796,565; less Pro Forma Total Expenses on Line 7 of $223,639,079 results in Pro Forma Operating Income at present rates of $35,157,486 as shown on line 8. As indicated, the Pro Forma Operating Income at present rates divided by Pro Forma Rate Base results in a rate of return of 4.5515% shown on line 9. Line 11, the Operating Income Requirement of $65,810,383 is compared to the Operating Income at present rates to calculate the required Additional Operating Income of $30,652,897 as shown on Line 12. The Associated Income Tax on Line 13 is $20,054,956. The required overall revenue increase is $50,707,853 as shown on Line 14.

Schedule 3-B summarizes Rate Base, Revenues and Expenses in columnar format categorized as Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. 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 Total. The Plant in Service Amount Per Books on Line 8 is $1,474,614,559; Pro Forma Adjustments reflect an increase of $33,583,441; the Pro Forma Adjusted Total is $1,508,198,000. Corporate allocated plant is included to identify the portion of ONEOK's plant in service allocated to KGS. The Pro Forma adjusted amounts are forwarded to Schedule 3-B and the total Pro Forma adjustment is forwarded to Schedule 3-A. The remaining pages in Schedule 4-A 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, 2008, 2009, 2010, and 2011.

Schedule 4-C provides summary Pro Forma Adjustments to Plant in Service by functional classification.

Schedule 4-D provides an explanation of Pro Forma Adjustments and is further explained in testimony by witnesses identified in Table 1 of my testimony.

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 ONEOK's accumulated depreciation allocated to KGS. The Accumulated Provision of Depreciation and Amortization Amount Per Books on Line 9 is $534,291,084; Pro Forma Adjustment is an increase of $9,293,804; and Pro Forma Adjusted Total is $543,584,888. The Pro Forma adjusted amounts are forwarded to Schedule 3-B and the total Pro Forma adjustment 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 Total. 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 Total. 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, 2008, 2009, 2010, and 2011.

Schedule 5-F provides an explanation of Pro Forma Adjustments which are explained in the testimony of the witnesses identified in Table 1 of my testimony.

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 and gas storage inventory. This section also includes a reduction to rate base for such customer-provided capital items as accumulated deferred income tax liability (ADIT), customer deposits and customer advances.

Schedules 6-B and 6-C each present thirteen months of data by the uniform FERC account, since these types of costs fluctuate monthly, a thirteen-month average is utilized to normalize the embedded cost continually supplied or advanced by Company.

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 KGS in Section 4.

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, 2008, 2009, 2010 and 2011.

Bruce Fairchild, who is testifying on behalf of KGS, supports 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 KGS for the periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-B presents an Income Statement by FERC functional account and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-C presents the Retained Earnings by FERC account and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-D presents detailed Operating Revenues by FERC account and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-E presents detailed Operating Expenses by FERC account and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-F presents Usage, Revenues and Customer Data and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

Schedule 8-G presents KGS Operations Payroll Data by FERC account and compares the twelve-month periods ended December 31, 2008, 2009, 2010 and 2011.

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 arrive at Operating Income under present rates in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Total Revenue on line 3, Amount Per Books, is $580,077,308; Pro Forma Adjustments to revenue are a decrease of $321,280,743 resulting in Pro Forma Revenue of $258,796,565. Total expenses on line 18, Amount Per Books, are $537,965,653; Pro Forma Adjustments to expenses are a decrease of $314,326,574 resulting in Pro Forma Expenses of $223,639,079. Operating income on line 19, Amount Per Books, is $42,111,655; Pro Forma Adjustments to Operating Income are a decrease of $6,954,169 resulting in Pro Forma Operating Income of $35,157,486.

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 include or exclude certain costs previously deferred pursuant to accounting authority orders and other adjustments. Schedule 9-C provides an explanation of Pro Forma Adjustments which are explained in the testimony of the witnesses identified in Table 1 of my testimony.

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 Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Corporate allocated depreciation expense is included to identify the portion of ONEOK's depreciation of plant in service allocated to KGS. Total Depreciation and Amortization Expense on line 15, Amount Per Books, is $49,618,362; Pro Forma Adjustments are an increase of $1,470,045 resulting in Pro Forma Adjusted Total of $51,088,407.

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, who is 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. PLEASE DESCRIBE SECTION 11

A. Section 11, Schedule 11-A presents Taxes other than Income Taxes and Income Taxes in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total. Total Taxes applicable to operations on line 9, Amount Per Books, are $35,415,053; Pro Forma Adjustments increase taxes $2,517,509 resulting in Pro Forma Adjusted Total of $37,932,562.

Schedule 11-B lists taxes other than income taxes such as components of payroll taxes, real estate and personal property taxes in columnar format under the headings of Amount Per Books, Pro Forma Adjustments and Pro Forma Adjusted Total.

Schedule 11-C, calculates taxable income and income taxes. In determining taxable income, the interest expense was synchronized 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 a schedule of the temporary and permanent tax timing differences to compute taxable Income (Loss).

Schedule 11-E shows Pro Forma Deferred income tax expense and 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 historical activity of the balance of the deferred investment tax credits and deferred income taxes.

Q. PLEASE DESCRIBE SECTION 12.

A. Schedules 12A and B address corporate allocation and are sponsored by company witness Stacey Borgstadt. Schedule 12C, which I am sponsoring, contains a summary of the labor capitalization ratios used to determine the labor allocated to capital and expense.

Q. PLEASE DESCRIBE SECTION 13.

A. Section 13 contains ONEOK's 2011 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. PLEASE DESCRIBE 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 Pro Forma Revenue from the Proposed Tariffs.

Schedule 17-B shows Customers, Deliveries and Revenues for each existing individual tariff. The test year numbers are shown as "per books" and followed by Pro Forma Adjustments, and then Total Pro Forma Customers, Deliveries and Revenues.

Schedule 17-C contains Customers, Deliveries 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 dividing the additional proposed revenue by the sum of the COGR revenue and the Pro Forma test year revenue. The revenue per unit was calculated by the proposed revenue divided by the Pro Forma deliveries. The COGR revenue was determined by multiplying the test year Pro Forma deliveries by the weighted average cost of gas during the test year of $5.6253 per Mcf.

Q. PLEASE DESCRIBE SECTION 18 AND WHICH WITNESS IS SPONSORING THAT SECTION?

A. Section 18 includes proposed changes to the Company's Rate Schedules and General Terms and Conditions. The section is sponsored by Company witness Justin Clements.

B. PART TWO: LIST OF ADJUSTMENTS AND WITNESSES

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 alphanumeric identifier. 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 and section 10)

Q. PLEASE IDENTIFY THE VARIOUS ADJUSTMENTS THAT SUPPORT THE COMPANY'S APPLICATION AND THE SPONSORING WITNESSES.

A. The adjustments and sponsoring witnesses are set forth in Table 1 below:

Adj. No.	Descriptions	Increase (Decrease) to Rate Base	Witness
PLT 1	CWIP	$ 14,237,712	Dittemore
PLT 2	Allocation of Corporate Assets	27,214,749	Borgstadt
PLT 3	Asset Retirements	(3,255,910)	Dittemore
PLT 4	Plant Assets Not Used and Useful	(4,425,774)	Storbeck
PLT 5	CNG Facility	(187,337)	Storbeck
PLT 6	Reclass Plant Between Services and Mains	-	Dittemore

Adj. No.	Descriptions	Increase (Decrease) to Rate Base	Witness
ADA 1	Acc. Depreciation – Corporate Assets	$ (15,113,866)	Borgstadt
ADA 2	Acc. Depreciation – Asset Retirements	3,255,910	Dittemore
ADA 3	Acc. Depreciation – Plant Assets Not Used and Useful	2,564,153	Storbeck
WC 1	Pre-Payments - Corporate	$ 1,360,076	Borgstadt
WC 2	ADIT - Associated with Pension/OPEB	33,759,366	Dittemore
WC 3	ADIT – Reflect Test Year End Balance	10,382,007	Dittemore
WC 4	ADIT - Associated with COGR	140,671	Dittemore
WC 5	ADIT - Corporate	(4,032,773)	Dittemore

Adj. No.	Descriptions	Increase (Decrease) to Operating Income	Witness
IS 1	Eliminate Accrued and Unbilled Revenues	$ 1,142,841	Storbeck
IS 2	Eliminate Deferred WNA Revenues	4,311,866	Storbeck
IS 3	Eliminate Cost of Gas Revenue and Expense	-	Storbeck
IS 4	Eliminate Ad-Valorem Surcharge Revenue and Expense	(7,147,026)	Storbeck
IS 5	Eliminate Gas System Reliability Surcharge Revenue	(8,005,229)	Storbeck
IS 6	As Available Gas Sales Revenue	(9,948)	Storbeck
IS 7	Test-year Revenue Adjustments	373,411	Storbeck
IS 8	Weather Normalization	(3,156,326)	Raab
IS 9	Revenue Annualization	132,116	Raab
IS 10	CNG Adjustment	(4,456)	Storbeck
IS 11	Bad Debt Adjustment	(185,884)	Storbeck
IS 12	Elimination of Royalty Fee	8,116,302	Storbeck
IS 13	Pension/OPEB Adjustment	(5,184,587)	Dittemore
IS 14	Amortization of Deferred Benefits	(4,602,429)	Dittemore
IS 15	Adjustment to Employee Medical Reserve	(587,928)	Dittemore
IS 16	Deferred Benefit Costs Allowed in the 602 Rate Case	2,937,792	Dittemore
IS 17	Charitable Contributions and Excluded Costs	(75,443)	Dittemore

Adj. No.	Descriptions	Increase (Decrease) to Operating Income	Witness
IS 18	KCC/CURB Regulatory Expense Normalization Adj.	(64,948)	Dittemore
IS 19	Income Tax Adjustment	4,501,926	Dittemore
IS 20	Misc. Out of Period Adjustments	225,411	Dittemore
IS 21	Rate Case Costs Amortization	(379,414)	Dittemore
IS 22	Payroll Adjustment for Union and Non Union Employees	(1,108,060)	Eaton
IS 23	Annualized Depreciation on Pro Forma Plant	(528,401)	Eaton
IS 24	Annualized Depreciation at Proposed Rates	(4,455,065)	Eaton
IS 25	Clearing Account Adjustment	249,361	Eaton
IS 26	Cellnet Adjustment	(22,681)	Eaton
IS 27	Bill Print Vendor Change Adjustment	(270,819)	Eaton
IS 28	Reclass Interest on Customer Deposits	(21,097)	Eaton
IS 29	Shared Services Adjustment	(38,491)	Eaton
IS 30	Removed Certain O&M Expenses Related to Unused Plant	82,357	Storbeck
IS 31	Annualized Corporate Depreciation	34,635	Borgstadt
IS 32	Normalized Compensation – STI/LTI/Deferred Compensation	1,924,470	Borgstadt
IS 33	Normalized Compensation – Share Awards	2,367,236	Borgstadt
IS 34	Distragas % Adjustment	477,277	Borgstadt
IS 35	Misc. Corporate Adjustments	1,891,493	Borgstadt
IS 36	Corporate OPEB, Pension and Benefits	125,567	Borgstadt

Q. PLEASE IDENTIFY THE PLANT ADJUSTMENTS YOU ARE SPONSORING IN SECTIONS 4 AND 5.

A. I am sponsoring Adjustment PLT 4 and PLT 5 and ADA 3.

Q. PLEASE EXPLAIN ADJUSTMENT PLT 4 AND ADA 3.

A. Adjustment PLT 4 and ADA 3 are necessary to eliminate plant assets and associated accumulated depreciation that are currently not used and useful. Associated operation and maintenance costs (O&M) have been eliminated in IS 30. The net adjustment decreases rate base by $1,861,621.

Q. PLEASE EXPLAIN ADJUSTMENT PLT 5.

A. Adjustment PLT 5 is necessary to remove that portion of the costs related to an upgrade to our Compressed Natural Gas (CNG) stations operating in Overland Park and Topeka, KS, to account for the fact that the CNG station is accessible to and used by the public. KGS uses the CNG facility for its fleet and other operational needs and allows the public to purchase CNG at the facilities. The revenue related to sales to the public has also been removed in adjustment IS 10. We allocated a portion of the facilities based on a three year average of the total gallons of CNG used by the public divided by the total gallons consumed by both the Company and the public. The percentage of public use was 58%. The adjustment decreases rate base by $187,337.

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

A. I am sponsoring Adjustment IS 1 through IS 7, IS 10 through IS 12 and IS 30.

Q. PLEASE EXPLAIN ADJUSTMENT IS 1.

A. Adjustment IS 1 is necessary to eliminate Accrued and Unbilled Revenues and Expenses that are included in the test year. The effect of this adjustment removes the estimated accounting entries and what is remaining is the revenue actually billed by the Company in the test year operating results to determine base rates. The adjustment increases test year operating income, before income taxes, by $1,142,841.

Q. PLEASE EXPLAIN ADJUSTMENT IS 2.

A. Adjustment IS 2 is necessary to eliminate the Deferred Weather Normalization Revenue. Under KGS'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 colder than normal. As a result, the over-collected revenue recorded on the books and records of the Company was eliminated from the test year to determine base rate revenues. The resulting adjustment increases test year operating income, before income taxes, by $4,311,866.

Q. PLEASE EXPLAIN ADJUSTMENT IS 3.

A. Adjustment IS 3 is to eliminate the Cost of Gas Revenues and Expenses. Gas costs are recovered dollar for dollar through KGS'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 to determine base rates. This adjustment nets to a $0 change in test year operating income, before income taxes.

Q. PLEASE EXPLAIN THE PURPOSE OF ADJUSTMENT IS 4.

A. Adjustment IS 4 relates to Ad Valorem Tax Revenues and Expenses. This adjustment increases the Ad Valorem tax expenses collected through base rates to $22,471,188 and will be our benchmark established for future filings under our ATSR. This balance has been determined by eliminating revenues billed under KGS's ATSR, eliminating the Ad Valorem tax that is amortized during the test period and increasing the test year Ad Valorem expense to the 2011 tax assessment level. The billed revenue adjustment is $5,576,328; the amortization expense adjustment is $5,522,836 and the adjustment to the test period ad valorem tax expense is $7,093,533. These adjustments have no impact on Company revenue because it merely updates base rates to recover the Ad Valorem tax expenses that are currently being collected through the ATSR. The sum of these adjustments decreases test year operating income, before income taxes, by $7,147,026.

Q. PLEASE EXPLAIN THE PURPOSE OF ADJUSTMENT IS 5.

A. Adjustment IS 5 GSRS relates to GSRS. The purpose of the GSRS is to recover cost related to natural gas utility plant projects that qualify under K.S.A 66-2201 et seq. This adjustment eliminates the revenue from the test year to determine base rates and re-establish the GSRS monthly charges to zero on the effective date that new rates will become effective. This adjustment has no impact to Company revenue because it merely updates base rates to recover expenses that have previously been collected through the GSRS. The sum of these adjustments decreases test year operating income, before income taxes, $8,005,229.

Q. PLEASE EXPLAIN ADJUSTMENT IS 6.

A. Adjustment IS 6 is necessary to eliminate As Available Gas Sales (AAGS) revenue from Pro Forma revenues. In 1995, KGS received approval from the 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 AAGS Service Rate Schedule. As part of the 2006 rate case settlement, customers receive 90 percent of the program's revenues that remain after deducting purchase and transportation costs, the remaining 10 percent is retained by the Company and is eliminated from the test period to determine base rates. This adjustment decreases operating income, before income taxes, $9,948.

Q. PLEASE EXPLAIN ADJUSTMENT IS 7.

A. Adjustment IS 7 is necessary to normalize test year revenues and expenses: prior period adjustments, contract minimum quantities, and discounted rate annualization.

Prior Period Adjustments: These adjustments change test year revenues to reflect billing corrections for the AAGS customer class applicable to services outside the test year. These adjustments increase operating income, before income taxes, $45,482.

Contract Minimum Quantities: The test period revenues were adjusted for the difference in the Mcf billed to customers compared to their contracted minimum quantities. The contract minimum revenues, as adjusted, were based on test year quantities under contracts that were in effect at the end of the test year. This adjustment increases operating income, before income taxes, $43,850.

Discounted Rate Annualization: The revenues received from customers paying discounted rates were annualized for known and determinable rate changes through February 29, 2012. This adjustment increases operating income, before income taxes, $284,079.

The sum of these adjustments increases operating income, before income taxes, $373,411.

Q. PLEASE DISCUSS ADJUSTMENT IS 10.

A. Adjustment IS 10 is necessary to eliminate CNG revenues and expenses that are used for public use from test period operations. This adjustment removes the revenues and associated tax expense for the CNG to determine base rates. The adjustment decreases operating income $4,456, before income taxes.

Q. PLEASE DISCUSS ADJUSTMENT IS 11.

A. Adjustment IS 11 is necessary to normalize the non-gas portion of bad debt expense in the test year. A three year average was used to increase the non-gas related bad debt expense. The adjustment decreases operating income by $185,884, before income taxes.

Q. PLEASE DISCUSS ADJUSTMENT IS 12.

A. Adjustment IS 12 reduces administrative and general costs by eliminating corporate royalty fee charges from the test period. The adjustment increases operating income by $8,116,302, before income taxes.

Q. PLEASE DISCUSS ADJUSTMENT IS 30.

A. Adjustment IS 30 removes the O&M costs related to the plant assets currently not used and useful in Adjustment PLT 4 from the test period. The adjustment increases operating income by $82,357, before income taxes.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

BRENDA L. STORBECK, being duly sworn upon his oath, deposes and states that she is Manager of Rates & Regulations for Kansas Gas Service, a Division of ONEOK, and Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

Brenda L. Storbeck

BRENDA L. STORBECK

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

NOTARY PUBLIC

My Appointment Expires:

9/28/2012

NOTARY PUBLIC -- State of Kansas
JO M. SMITH
My Appt. Exp. 9/28/12