

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-~~85~~RTS



Received  
on

**MAY 18 2012**

by  
State Corporation Commission  
of Kansas

**DIRECT TESTIMONY**  
**OF**  
**STACEY R. BORGSTADT**  
**ON BEHALF OF**  
**KANSAS GAS SERVICE**  
**A DIVISION OF ONEOK, INC**

**DIRECT TESTIMONY**  
**OF**  
**STACEY BORGSTADT**  
**KANSAS GAS SERVICE**  
**DOCKET NO. 12-KGSG-\_\_\_-RTS**

1 **I. INTRODUCTION**

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

3 A. My name is Stacey R. Borgstadt. My business address is 100 W. Fifth Street, Tulsa,  
4 Oklahoma.

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

6 A. I am employed by ONEOK, Inc. I am a Manager of Rates and Regulatory Analysis  
7 for the ONEOK Distribution Companies (“ODC”) of ONEOK, Inc. (“ONEOK” or “The  
8 Company”).

9 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**  
10 **EXPERIENCE.**

11 A. I received a Master’s Degree in Business Administration with a concentration in  
12 Information Systems from Lindenwood University in 2001 and a Bachelor of Science  
13 Degree in Accounting from Missouri Valley College in 1996. I began my employment  
14 with ONEOK on November 21, 2005, as a project leader in the Internal Audit  
15 Department. I began serving in my current position as Manager of Rates and  
16 Regulatory Analysis in October 2007. Prior to joining ONEOK, I worked as a Senior  
17 Associate at KPMG from January 2004 to November 2005. From August 1998 to  
18 January 2004, I served in the internal audit departments of Enterprise Rent A Car,  
19 Cornerstone Propane, and Dollar Rent A Car. From June 1996 to August 1998, I  
20 served as a corporate accountant for Dollar Rent A Car.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE REGULATORY**  
2 **COMMISSIONS?**

3 A. Yes, I have provided written testimony to the Oklahoma Corporation Commission  
4 and testified before the Railroad Commission of Texas.

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

6 A. The purpose of my testimony is to: 1) identify and quantify ONEOK corporate plant  
7 and expenses allocated to Kansas Gas Service ("KGS"), and sponsor schedules 12A  
8 and B of the minimum filing requirements ("MFR"), 2) sponsor adjustments PLT 2,  
9 ADA 1, WC 1, IS 31 through IS 36, and 3) sponsor adjustments related to KGS's  
10 costs for share awards and incentive compensation. The detail supporting these  
11 adjustments will be discussed in later sections of my testimony.

12 **II. CORPORATE ALLOCATIONS**

13 **Q. WHAT IS THE PURPOSE OF CORPORATE ALLOCATIONS?**

14 A. Their purpose is to reasonably allocate KGS's proportionate share of costs for  
15 services it receives from ONEOK Corporate.

16 **Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY ONEOK CORPORATE TO**  
17 **ITS DIVISIONS.**

18 A. ONEOK provides a number of services related to the corporate governance of a  
19 publicly held corporation, including corporate strategic planning, executive oversight  
20 and direction, resource allocations, performance management, legal services and  
21 regulatory compliance. Compliance activities include corporate SEC accounting and  
22 disclosure activities, division accounting, state and federal tax payment, legal  
23 services, treasury functions, investor relations activities, and state and federal  
24 regulatory compliance. Financial control activities include risk management and  
25 internal audit functions (like Sarbanes-Oxley compliance). ONEOK Corporate also

1 provides services such as information technology, human resources management,  
2 and communication functions.

3 **Q. PLEASE DESCRIBE THE METHODOLOGY EMPLOYED BY ONEOK TO**  
4 **ALLOCATE COSTS AMONG THE DIVISIONS IT SUPPORTS.**

5 A. ONEOK allocates costs 1) directly, or 2) indirectly either a) on a causal basis, or b)  
6 through the Modified Distrigas methodology, which I will refer to as ONEOK  
7 Distrigas. The Company seeks specifically to assign costs that can be directly  
8 charged or were directly incurred to KGS first. Those costs that cannot be directly  
9 charged to KGS, but for which a specific measurement can be identified will be  
10 allocated on a causal basis based on the most appropriate cost driver. Lastly, the  
11 Company uses the ONEOK Distrigas method to allocate any remaining indirect  
12 corporate costs.

13 **Q. PLEASE BRIEFLY EXPLAIN “DIRECT COSTS”.**

14 A. Direct costs are those charges that can be specifically attributed to KGS and are  
15 charged directly to KGS. These costs are identified by operational personnel when  
16 incurred for services provided to KGS customers such as meter reading, fleet  
17 expenses, property insurance, and salaries/benefits that are specific to KGS  
18 employees.

19 **Q. PLEASE EXPLAIN “INDIRECT COSTS”.**

20 A. KGS is a division of ONEOK. The corporate level of ONEOK provides services  
21 commonly required in publicly held corporations. These support costs include  
22 services from departments such as Corporate Accounting, Treasury, Human  
23 Resources, Investor Relations, and Information Technology. These services benefit  
24 ONEOK and all of its divisions, including KGS. Thus, like other divisions, KGS is  
25 supported by a number of functions carried out by ONEOK. The costs incurred by

1 ONEOK Corporate are recorded initially on the corporate general ledger and are  
2 then allocated to the various ONEOK Divisions. The allocations are made either on  
3 a causal basis, which allocates costs based on relative use of corporate services,  
4 and/or through ONEOK's Distringas methodology.

5 Indirect costs are allocated to KGS because they represent KGS's proportionate  
6 share of the ONEOK Corporate expenses incurred to support the operation of KGS.

7 Indirect costs that cannot be charged directly are allocated to business entities on a  
8 basis of causal relationships or through ONEOK's Distringas Method. The causal  
9 relationships are specific measurements based on the type of cost, which can be a  
10 measure of participation level, activity level, output level or resource consumption  
11 such as (1) assigning 1/3 of certain costs to each of the Company's ODCs, e.g.,  
12 ODC Executives; (2) assigning certain costs based on budgeted employee  
13 headcount, e.g., for Human Resources costs; (3) assigning certain costs based on  
14 customer number, e.g., for the Billing Control Group; and (4) assigning certain costs  
15 based on gross plant, e.g., for the Shared Services – Property Accounting Group.  
16 The operation of ONEOK's Distringas methodology will be discussed in more detail  
17 later in my testimony.

18 **Q. PLEASE DESCRIBE THE HISTORY OF THE DISTRIGAS ALLOCATION**  
19 **METHODOLOGY.**

20 A. The Distringas method was first approved by the Federal Energy Regulatory  
21 Commission (FERC) in a rate proceeding for a natural gas transmission company,  
22 Distringas of Massachusetts, L.L.C ("Distringas"). The formula used by Distringas was a  
23 slight modification of the old Massachusetts formula (a three part formula consisting  
24 of gross plant, gross revenues and payroll) which, prior to the acceptance of the  
25 Distringas method, was widely accepted by numerous regulatory agencies across the  
26 country as a just and reasonable method of allocating corporate overhead and other

1 costs. However, Distrigas argued at the FERC that the Massachusetts formula had  
2 a flaw that over-allocated costs to utilities due to its inclusion of the cost of fuel in  
3 gross revenues. This had the effect of inflating the allocation of costs to utility  
4 operations to the benefit of non-utility operations. The FERC agreed that the old  
5 Massachusetts formula did inflate costs to the utility; therefore, it accepted the  
6 Modified Distrigas method (a three-part formula consisting of gross plant, net  
7 revenues and payroll) as a reasonable and acceptable methodology for allocating  
8 costs for ratemaking purposes.

9 **Q. HAS ONEOK MADE FURTHER REFINEMENTS TO THE MODIFIED DISTRIGAS**  
10 **METHOD?**

11 A. Yes. ONEOK has used a Modified Distrigas method as the basis for its methodology  
12 to allocate corporate administrative costs since 1994. ONEOK has made further  
13 refinements to the Distrigas method to adapt to changing business conditions.  
14 ONEOK's Distrigas method uses a three-factor formula comprised of: (1) gross plant  
15 and investments; (2) operating income (income before interest expense and income  
16 taxes); and (3) labor expense (which includes project, machine shop, and training  
17 labor). The factors are individually calculated and then weighted using a simple  
18 average of the three component percentages. ONEOK's refinement of the Modified  
19 Distrigas method utilizes gross plant *and* investments rather than just gross plant  
20 because ONEOK has a significant investment in businesses that are not directly  
21 operated by ONEOK. By making this change, ONEOK allocates costs based on the  
22 amount of investment that ONEOK has on its books and records. Another change in  
23 the allocation methodology is that ONEOK uses operating income rather than net  
24 revenues as an allocator. It does this to eliminate the cost of gas component.  
25 Additionally our corporate structure includes service companies that provide  
26 intercompany services. If gross revenues were used, the formula could allocate a

1 disproportionate amount of costs to our ODC's. The modifications the Company has  
2 made to further refine the Distringas method reduce the costs allocated to the ODC's,  
3 including KGS.

4 **Q. CAN YOU EXPLAIN IN MORE DETAIL HOW COSTS ARE ALLOCATED TO THE**  
5 **VARIOUS ONEOK ENTITIES USING THE ONEOK DISTRIGAS METHOD?**

6 A. Yes. ONEOK Distringas is used to assign costs for all business units under the  
7 ONEOK corporate umbrella. This ensures that ONEOK allocates corporate costs to  
8 each business unit on a consistent basis applying the same cost-causation principle  
9 and methodology. Once determined, corporate support charges are allocated to the  
10 various ONEOK entities using a four-step method.

11 1) Costs that are specifically attributable to the ODC's, such as ONEOK  
12 Distribution legal support, are allocated using the ONEOK Distringas -  
13 Distribution factor (i.e. from cost center 1007<sup>1</sup>). This calculates allocation  
14 percentages using the respective allocation factors for the business  
15 entities of ONEOK's Distribution Companies reportable segment. This  
16 segment is comprised of Oklahoma Natural Gas, Kansas Gas Service,  
17 Texas Gas Service, and ONEOK Energy Marketing Company, which was  
18 sold in February of 2012.

19 2) Costs that are attributable only to ONEOK Partners are allocated using  
20 the ONEOK Distringas Partners - OKS factor (i.e. from cost center 1008).  
21 This calculates allocation percentages using the respective allocation  
22 factors for business entities of ONEOK Partners. None of these costs are  
23 allocated to KGS.

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<sup>1</sup> Cost Center 1007 includes Kansas Gas Service, Oklahoma Natural Gas, Texas Gas Service, ONEOK Energy Marketing Company.

1           3)     Costs that are attributable only to ONEOK such as ONEOK Board of  
2           Director expenses are allocated using ONEOK Distrigas - OKE factor  
3           (i.e. from cost center 1009<sup>2</sup>). This calculates allocation percentages  
4           using the respective allocation factors for business entities of ONEOK  
5           such as Energy Services, Distribution, and a few other companies.

6           4)     Any remaining indirect costs incurred that benefit both ONEOK and  
7           ONEOK Partners not allocated through the above factors such as  
8           ONEOK Audit Services, Information Technology, ONEOK Safety and  
9           Environmental, or ONEOK Finance and Accounting are allocated using  
10          ONEOK Distrigas - All factor (i.e. from cost center 1011<sup>3</sup>). This calculates  
11          allocation percentages using the respective allocation factors for business  
12          entities of ONEOK and ONEOK Partners.

13          ONEOK's cost allocation manual is on file with the Kansas Corporation Commission.  
14          The allocation percentages determined pursuant to the above procedures are set  
15          forth in schedules 12A and 12 B of the minimum filing requirements.

16   **Q.     HAVE THE OTHER STATE COMMISSIONS THAT REGULATE ONEOK'S ODC**  
17   **COMPANIES ACCEPTED ONEOK'S DISTRIGAS METHODOLOGY?**

18   A.     Yes. The Oklahoma Corporation Commission and the Railroad Commission of  
19     Texas have accepted the ONEOK Distrigas methodology. It is important to ONEOK  
20     to have a common allocation methodology approved by the respective regulatory  
21     agencies to ensure that the method is fair to each of the ONEOK business entities  
22     and their customers, and to ensure that all reasonable and necessary costs related  
23     to providing utility service are recovered in rates.

24   **III.   ADJUSTMENTS**

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<sup>2</sup> Cost Center 1009 includes Energy Services, Distribution, and a few other companies.

<sup>3</sup> Cost Center 1011 includes ONEOK and ONEOK Partners.



1 **Q. YOU INDICATED EARLIER THAT YOU ARE SPONSORING ADJUSTMENTS TO**  
2 **TEST YEAR PLANT AND EXPENSES ALLOCATED TO KGS. PLEASE IDENTIFY**  
3 **THOSE ADJUSTMENTS.**

4 **A.** The adjustments I am sponsoring are summarized below in Table 1:

Table 1						
Adjustment Number	Description	KGS Direct	Corporate Costs allocated on a causal basis	Distrigas Adjustment Amount	Total Adjustment Amount	Page
PLT 2	Corporate Assets		\$16,120,580	\$11,094,168	\$27,214,749	9
ADA 1	Accumulated Depreciation on Corporate Assets		\$7,660,565	\$7,453,302	\$15,113,866	10
WC 1	Corporate Prepayments			\$1,360,076	\$1,360,076	11
IS 31	Corporate Depreciation				\$(34,635)	11
IS 32	Compensation – STI/LTI/Deferred Compensation	\$(333,909)	\$(86,458)	\$(1,504,103)	\$(1,924,470)	11
IS 33	Share Awards	\$(2,170,041)	\$(17,387)	\$(179,808)	\$(2,367,236)	12
IS 34	Annualize ONEOK Distrigas allocation percentages for the first quarter of 2012			\$(477,277)	\$(477,277)	12
IS 35	Miscellaneous Corporate Charges Adjustment		\$(960)	\$(1,890,533)	\$(1,891,493)	13
IS 36	Annualize OPEB, Pension, Health Benefits, and Insurance			\$(125,567)	\$(125,567)	13

5 **A. CAPITAL INVESTMENT ADJUSTMENTS**

1 **Q. PLEASE BEGIN WITH AN EXPLANATION FOR RATE BASE ADJUSTMENT PLT**  
2 **2.**

3 A. PLT 2 increases the Company's Plant in Service to include Corporate Assets  
4 allocated to KGS in the amount of \$ 27,214,749.

5 The adjusted plant in service amount allocated to KGS on a causal basis amounts to  
6 \$16,120,580. The adjusted plant in service amount allocated to KGS using ONEOK  
7 Distrigas is \$11,094,169, making the PLT 2 total adjustment \$27,214,749. These  
8 assets are necessary in the provision of utility service to KGS, but are not reflected  
9 on the division books of KGS, thus this adjustment is necessary to include them in  
10 Rate Base for purposes of determining the KGS revenue requirement.

11 **Q. WHAT IS THE AMOUNT ONEOK HAS INVESTED AT THE CORPORATE LEVEL**  
12 **IN PLANT IN SERVICE.**

13 ONEOK has invested \$140.6 million (\$155.3 million test year plant in service less  
14 \$14.7 million adjustment).

15 **Q. PLEASE EXPLAIN THE \$14.7 MILLION ADJUSTMENT.**

16 A. Within this adjustment, I have removed assets for which management has decided to  
17 not seek recovery such as corporate aircraft, artwork, and ONEOK Foundation  
18 Software. The adjustment to the Corporate Assets totaled \$14.7 million.

19 **Q. DID YOU MAKE ANY ADDITIONAL ADJUSTMENTS TO THE PLANT IN SERVICE**  
20 **ALLOCATED TO KGS?**

21 A. Yes. I adjusted the Cost Allocation percentages for the first quarter of 2012 resulting  
22 in a decrease in plant in service allocated to KGS. I also included the costs relating  
23 to Maximo, a software providing asset lifecycle and maintenance management that  
24 was placed in service in September of 2011.

25 **Q. PLEASE BRIEFLY DISCUSS THE AMOUNT ONEOK HAS INVESTED AT THE**  
26 **CORPORATE LEVEL IN PLANT IN SERVICE.**

1 A. \$51.6 million is associated with causal related investments. The majority of these  
2 investments, \$48.8 million, is for the Company's investment in computer software  
3 such as the Banner customer service system, which is used exclusively by the three  
4 ODCs located in Kansas, Oklahoma, and Texas. Because the software is used only  
5 by the three ODCs, the cost of the software is allocated on a causal basis using the  
6 relative number of ONEOK ODC customers served in each state. Thus, because it  
7 serves 30.31% of the total ONEOK ODC customer base, KGS was allocated 30.31%  
8 or \$14.8 million of the test year Banner investment. The remaining causal related  
9 investments total \$1.4 million bringing the total causal related investments to KGS to  
10 \$16.1 million.

11 The remainder of the corporate investment of \$140.5 million is invested in assets that  
12 are allocated using the ONEOK Distrigas method and total to \$89 million. KGS's  
13 share is \$11.1 million. The majority of these costs are related to computer hardware  
14 and software.

15 **Q. PLEASE PROVIDE AN EXPLANATION FOR RATE BASE ADJUSTMENT ADA 1.**

16 A. ADA 1 is the Accumulated Provision for Depreciation and Amortization adjustment  
17 for Corporate Assets allocated to KGS in the amount of \$15,113,866. The adjusted  
18 accumulated provision for depreciation and amortization adjustment amount  
19 allocated to KGS on a causal basis amounts to \$7,660,565. The adjusted  
20 accumulated provision for depreciation and amortization amount allocated to KGS  
21 using ONEOK Distrigas is \$7,453,302, making the ADA 1 total adjustment  
22 \$15,113,866. This adjustment recognizes the portion of the Accumulated  
23 Depreciation and Amortization Reserve associated with ONEOK's Plant in Service  
24 allocated to KGS in PLT 2. Within ADA 1, adjustments were made that correspond  
25 with the adjustments discussed in PLT 2.

1 **Q. PLEASE PROVIDE AN EXPLANATION FOR WORKING CAPITAL ADJUSTMENT**  
2 **WC 1.**

3 A. WC 1 increases rate base \$1,360,076 by calculating the average 13-month balance  
4 for Corporate Prepayments allocated to KGS. Prepayments are properly included in  
5 Rate Base as they represent an investment the Company has made in the provision  
6 of utility service, similar to the plant in service assets. Corporate allocated  
7 prepayments are included to recognize advances for such items as insurance policy  
8 premiums allocated to KGS. The Company maintains a prepayment balance to  
9 cover annual insurance premiums for policies such as general liability, automobile,  
10 workers' compensation, property and annual computer maintenance fees. The  
11 average 13-month balance has been adjusted to remove activity for which  
12 management has decided not to seek recovery and to reflect annualization of the  
13 Cost Allocation percentage for the first quarter of 2012.

14 **B. DEPRECIATION AND AMORTIZATION ADJUSTMENT**

15 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
16 **ADJUSTMENT IS 31.**

17 A. IS 31 reduces Depreciation and Amortization expense by \$34,635 to reflect the  
18 allocation of costs assigned to KGS in Adjustment PLT 2. Corporate allocated  
19 depreciation and amortization expense is included to identify the portion of ONEOK's  
20 depreciation and amortization of plant in service allocated to KGS. Within IS 31,  
21 adjustments were made that correspond with the adjustments discussed in PLT 2.

22 **C. CORPORATE COST ADJUSTMENTS**

23 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
24 **ADJUSTMENT IS 32.**

1 A. IS 32 reduces Operating Expenses \$1,924,470. The adjustment is based upon a  
 2 three-year average of such costs in order to normalize incentive and deferred  
 3 compensation costs.

4 **Q. WHAT IS THE ADJUSTMENT FOR EACH COMPENSATION COMPONENT?**

5 A. The adjustments are shown below in Table 2.

Table 2

Description	Direct	Allocated to KGS on a Causal basis	Allocated to KGS through Distrigas	Total
Adjustment to long term incentive	(251,906)	(27,799)	(264,312)	(544,017)
Adjustment to short term incentive	(82,003)	(58,659)	(340,990)	(481,652)
Adjustment to deferred compensation			(898,801)	(898,801)
Total	(333,909)	(86,458)	(1,504,103)	(1,924,470)

6 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
 7 **ADJUSTMENT IS 33.**

8 A. IS 33 reduces Operating Expenses \$2,367,236. The expense was normalized by  
 9 calculating the average annual employee share awards costs since the program was  
 10 initiated in 2001.

11 **Q. WHAT IS THE ADJUSTMENT FOR EACH COMPONENT OF SHARE AWARDS?**

12 A. The components of this adjustment are shown in Table 3.

Table 3

Description	Direct	Allocated to KGS on a Causal basis	Allocated to KGS through Distrigas	Total
Adjustment to Share Awards	(2,170,041)	(17,387)	(179,808)	(2,367,236)

14 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
 15 **ADJUSTMENT IS 34.**

1 A. IS 34 reduces Operating Expenses \$477,277. This adjustment reflects the known  
2 and measurable change to the ONEOK Dstrigas factors (1) gross plant and  
3 investments; (2) operating income (income before interest expense and income  
4 taxes); and (3) labor expense used to calculate ONEOK Dstrigas percentages as of  
5 the first quarter 2012.

6 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
7 **ADJUSTMENT IS 35.**

8 A. IS 35 reduces Operating Expenses \$1,891,493. This adjustment  
9 removes/reclassifies depreciation and amortization, which is calculated and  
10 represented in Adjustment IS 31, and removes or adjusts costs related to  
11 governmental relations, civic activities, contributions and donations, and other  
12 corporate support costs for which management has elected not to seek recovery in  
13 this case. The adjustment amount allocated to KGS on a causal basis amounts to  
14 \$960. The adjustment amount allocated to KGS using ONEOK Dstrigas is  
15 \$1,890,533, making the total IS 35 adjustment \$1,891,493.

16 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
17 **ADJUSTMENT IS 36.**

18 A. IS 36 reduces Operating Expenses \$125,567. This adjustment annualizes the  
19 known and measurable changes in Pension, Other Post Employment Benefits  
20 (“OPEBs”), Health Benefit, and Insurance costs. This adjustment is primarily caused  
21 by the reduction to the ONEOK Dstrigas allocation factors for KGS.

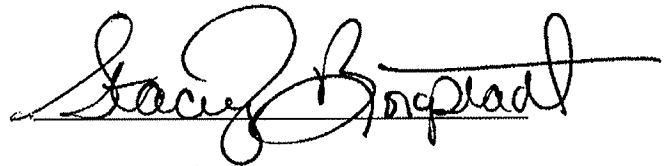
22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes.

VERIFICATION

STATE OF OKLAHOMA     )  
  ) ss.  
COUNTY OF TULSA     )

Stacey R. Borgstadt, being duly sworn upon her oath, deposes and states that she is Manager of Rates and Regulatory Analysis for ONEOK, 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.



Subscribed and sworn to before me this 11 day of May 2012.

  
NOTARY PUBLIC

My appointment Expires:

10-16-12

