**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

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| **ELECTRONIC APPLICATION OF** | **)** | |
| **BLUEGRASS WATER UTILITY** | **)** | **Case No. 2022-00432** |
| **OPERATING COMPANY, LLC FOR** | **)** | |
| **AN ADJUSTMENT OF SEWAGE RATES** | **)** | |

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**ATTORNEY GENERAL'S RESPONSE TO DATA REQUESTS**
**OF BLUEGRASS WATER**

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The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention ("Attorney General") submits these Responses to the Data Requests submitted by Bluegrass Water Operating Company, LLC (hereinafter "Bluegrass Water," "Bluegrass," or the "Company") on July 14, 2023.

Respectfully submitted,

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*Certificate of Service and Filing*

Pursuant to the Commission's Orders in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that, on July 31, 2023, a copy of the forgoing was served by electronic mail via the Commission's electronic filing system.

this 31st day of July, 2023.

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Assistant Attorney General

**Case No. 2022-00432**

**ELECTRONIC APPLICATION OF BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC FOR AN ADJUSTMENT OF SEWAGE RATES**

**Response to Data Requests**

1. For each of your witnesses, please identify the witness's specific experience (by proceeding caption and case number) testifying in rate cases. Please identify the party on whose behalf each witness testified in those proceedings, and provide a copy of or link to any written testimony of such witness in such case.

Response:

For purposes of this response, "rate cases" are defined as base rate cases filed periodically and exclude Annual Review Mechanisms.

Please see the attached listing of testimony provided by Mr. Dittemore, representing a best reasonable effort to identify rate cases in which he has provided testimony. Testimony provided prior to the mid 1990's before the Kansas Corporation Commission is not readily available from the agency's public website. Testimony during this period was not retained by Mr. Dittemore. Further, rate case testimony provided in the 2003 – 2007 time frame is not available.

Response by Dave Dittemore

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| | | **Listing of Rate Case Testimony** | | | |
| | | **Submitted by David N. Dittemore** | | | |
| | **Docket No.** | **Caption** | **Jurisdiction** | **On Behalf of** | **Testimony Attached?** |
| | 94-KNPG-434-RTS | In the Matter of the Joint Application of Kansas Pipeline Partnership and Kansas Natural Partnership for an Order Authorizing their Combination and the Transfer of their Certificates of Convenience and Necessity to Kansas Pipeline Partnership, Authorizing teh Continuation of the Existing Liens Upon Public Utility Property, Authorizing an Increase in Rates and Authorizing Changes in Terms and Conditions of Services. | Kansas | Kansas Corporation Commission Staff | Not Available |
| | 03-KGSG-602-RTS | 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 | Kansas | Kansas Corporation Commission Staff | Yes |
| | 04-CGTT-679-RTS | In the Matter of the Application of Council Grove Telephone Company for Additional Kansas Universal Service Fund Support pursuant to K.S.A. 66-2008(f) | Kansas | Kansas Corporation Commission Staff | Yes |
| | 04-AQLE-1065-RTS | In the Matter of the Application of Aquila Inc. d/b/a/ Aquila Networks - WPK for Approval of the Commission to make Certain Changes in Rates for Electrical Service. | Kansas | Consumer Utility Ratepayer Board | Yes |
| | 05-CNHT-020-AUD | In the Matter of an Audit of Cunningham Telephone Company | Kansas | Kansas Corporation Commission Staff | Yes |
| | 05-TTHT-895-AUD | In the Matter of an Audit of Totah Communications, INC. | Kansas | Kansas Corporation Commission Staff | Yes |
| | 06-RNBT-1322-AUD | In the Matter of an Audit of Rainbow Telecommunications Association Inc. | Kansas | Kansas Corporation Commission Staff | Yes |
| | 12-KGSG-835-RTS | 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 | Kansas | Kansas Gas Service | Yes |
| | 16-KGSG-491-RTS | 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 | Kansas | Kansas Gas Service | Yes |
| | 19-00057 | Petition for Approval of an adjustment in the rates, charges and tariff | Tennessee | Tennessee Attorney General | Yes |
| | 18-00017 | Petition for Approval of an Adjustment in Rates and Tariff; the termination of the AUA mechanism and the related tariff changes and revenue deficiency recovery and an annual rate review mechanism. | Tennessee | Tennessee Attorney General | Yes |
| | 20-00086 | Petition of piedmont Natural Gas Company, Inc. For Approval of an Adjustment of Rates, Charges, and Tariffs applicable to Service in Tennessee | Tennessee | Tennessee Attorney General | Yes |
| | 23-FRPG-461-Con | In the Matter of the Application of Freedom Pipeline LLC, for Approval of its Sales for Resale Customer Contracts | Kansas | Freedom Pipeline LLC | Yes |

| | | |
|---|---|---|
| In the matter of the Application of<br>Kansas Gas Service, A Division of<br>Oneok, Inc., for Adjustment of its<br>Natural Gas Rates in the State of<br>Kansas. | )<br>)<br>)<br>)<br>) | 03-KGSG-602-RTS |



STAFF DIRECT TESTIMONY

PREPARED BY

DAVID N. DITTEMORE

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

**Q. Would you please state your name?**

**A.** David N. Dittemore

**Q. What is your occupation and business address?**

**A.** I am a self-employed consultant specializing in the area of public utility regulation. My business address is P.O. Box 51, Owasso, OK 74055.

**Q. Please provide a brief description of your professional experience.**

**A.** I received a Bachelor of Science degree in Business Administration with a major in Accounting from Central Missouri State University in 1982. From 1982 – 1984 I was employed as an Accountant by Standard Oil (Indiana). I accepted a Staff position with the KCC in 1984 and held various Staff positions while at the KCC, including Chief of Accounting and Financial Analysis. In 1995 I accepted a position as Manager of Rates with Missouri Gas Energy. In 1996 I returned to the KCC as Deputy Director of the KCC and was appointed Director of Utilities in 1997. I accepted a position with WorldCom in 1999 as Manager of Wholesale Billing Resolutions with responsibilities for resolving disputed billing issues with facilities based and resell long distance providers. In 2000 I accepted a position as Manager of Regulatory Affairs with The Williams Companies. During my tenure with Williams I monitored wholesale electric power issues on behalf of Williams Energy Marketing and Trading, provided research on electric regulatory activities in key states and participated in due diligence efforts designed to secure long term power supply arrangements with electric utilities. In 2003 I began my consulting practice in the field of public utility regulation. In summary, I have experience in the natural gas, telecommunication and electric industries, in addition to approximately twelve years experience with the Kansas Corporation Commission. I have testified on numerous occasions before the KCC and once each before the Federal Energy Regulatory Commission (FERC) and the Interstate Commerce Commission (ICC).

**Q. Could you please summarize the adjustment you are sponsoring?**

**A.** Yes. The bulk of my testimony is devoted to various adjustments to Transmission investment and Operating and Maintenance costs (O&M) related to MCMC and corporate overhead allocation issues. I'm also supporting several other adjustments unrelated to MCMC and corporate overhead allocations. Exhibit DND-1 summarizes the adjustments I am sponsoring.

**Q. Mr. Dittemore, could you please summarize your conclusions regarding cost recovery issues surrounding transactions between Mid-Continent Market Center (MCMC) and Kansas Gas Service (KGS)?**

**A.** Yes. I am proposing several adjustments which will be discussed in greater detail later in my testimony. The justification for each adjustment differs, however a common thread running through Staff's recommendations is that KGS ratepayers must be protected from the attempts by KGS to shift the risk back to consumers from its failed MCMC venture.[1] Such risk shifting directly contradicts the terms of a 1995 Stipulation and Agreement (1995 S&A) approved by the Commission, the 1995 testimony of Mr. Eliason supporting the original transfer of assets from KGS to MCMC, as well as basic utility regulatory ratemaking concepts. Furthermore, KGS's failure to execute contract terms with MCMC in an arms-length fashion has resulted in over $2.1 Million in excess costs recovered from KGS's Cost of Gas Rider (COGR). Such costs continue to accrue on a monthly basis and should be refunded to consumers through the COGR mechanism.

In summary, the following adjustments are necessary to protect consumers from the negative cost implications related to the Yaggy explosion and the related failed commercial venture of KGS's affiliate MCMC. KGS is attempting in this

[1] At the formation of MCMC, Western Resources owned the LDC assets that were subsequently acquired along with the MCMC assets by ONEOK and renamed Kansas Gas Service.

application to shift costs from the failed MCMC operation to its ratepayers, directly contradicting the spirit in which the assets were initially transferred to MCMC. Staff urges the Commission to carefully consider the history of the MCMC in determining whether the incremental costs associated with Yaggy and MCMC should be absorbed by KGS ratepayers.

If not for its status as a regulated monopoly of an essential service, ONEOK shareholders would be required to absorb the incremental costs associated with its MCMC venture. Instead, KGS seeks to shift these costs to consumers at a point when MCMC is no longer viable as originally envisioned. Staff has attempted to quantify the subtle but yet very tangible and costly implications resulting from the Yaggy incident and the corresponding failed commercial venture of MCMC.

The items listed below are the negative implications from the failed MCMC venture that require recognition in this proceeding in order to protect captive KGS consumers;

1. Elimination of capital expenditures from the revenue requirement associated with MCMC investments necessary to pursue commercial transactions outside the provision of transmission and storage service to KGS. (Adjustment RB-7 and IS-23
2. Elimination of Operating and Maintenance (O&M) costs associated with the excluded assets (IS 24 and 25).
3. Elimination of Operating and Maintenance costs associated with facilities currently owned by MCMC (IS-26).
4. Refund $2.1M from the Cost of Gas Rider (COGR) associated with the imprudent actions of KGS subsequent to the Yaggy incident.
5. Eliminate excessive affiliate costs embedded in the storage contract between KGS and MCMC associated with Brehm and Kanold Storage service (IS-27).

6. Restore the term of the Storage Capacity to extend through 2014, consistent with the original term of the Storage Contracts approved in 1995.

7. Elimination of legal costs incurred related to the Yaggy incident, improperly charged to KGS (IS-37).

8. Reduced level of Transportation revenue as a result of the Yaggy incident that otherwise would be used to offset Transmission costs (no adjustment proposed).

**Q. Please quantify the various MCMC adjustments you are proposing.**

**A.** Listed below is a table summarizing the various MCMC adjustments I am supporting.

| Adj. # | Rate Base (Net Plant) | ADIT | Depreciation Expense | AdValorem | O&M |
|---|---|---|---|---|---|
| RB-7, IS-23 | ($22,981,213)<br>-$1,961,171<br>$(21,020,043) | $1,598,845 | $(377,342) | ($204,168) | |
| IS-24 | | | | | ($226,283) |
| IS-25 | | | | | ($207,798) |
| IS-26 | | | | | ($583,204) |
| Total | $(21,020,043) | $1,598,845 | $(377,342) | | ($1,017,286) |

In addition to the adjustments referenced above, I am also proposing a refund of over $2.1 Million in excessive COGR costs collected from ratepayers.

**Q. Could you provide some background information on the formation of the MCMC and its subsequent movement of assets from MCMC back to KGS in 2002?**

**A.** Yes. I will supplement the background information provided in the testimony of KGS's witness Dixon, focusing on relevant points not addressed in KGS's pre-filed testimony.

In 1995, Western Resources (prior owner of ONEOK's Kansas gas properties) and MCMC, filed a joint application with the Commission seeking approval of the following items:

(a) Authorizing MCMC to transact business as a natural gas utility in Kansas;

(b) Authorizing the transfer of certain gas assets to MCMC;

('c) Authorizing WR to hold stock in the MCMC;

(d) Approving the agreements by and between Western Resources and the MCMC, specifically the LDC Agreement, the Operational Services Agreement and the Credit Agreement;

(e) Authorizing WR to lend funds to MCMC and authorizing MCMC to incur debt;

**Q. What was the business case underlying WR's decision to initiate this new business venture?**

**A.** MCMC's purpose was to tap what it believed was a growing demand for wholesale services such as transportation, providing alternative markets for gas, wheeling gas from one pipeline to another, facilitating gas pooling and generally creating a liquid, transparent market for gas trading in the mid-continent region. These services, were provided under a tariff that contained a great deal of pricing flexibility driven by market conditions contrasted with the close scrutiny provided over the affiliated agreement between MCMC and WR's Local Distribution Company (LDC).

**Q. Please continue.**

**A.** The Commission approved the Stipulation and Agreement (S&A) between Staff, WR and MCMC in an order dated June 30, 1995 (Docket 191,839-U). I have included the 1995 S&A as Exhibit DND-2 to my testimony.

In pertinent part the 1995 contains the following language;

> "This agreement and related joint application involving WRI and the market center is not intended to negatively impact residential and small business customer interests from the standpoint of transactions between the parties, terms and conditions of service, agreements by and between the parties, and related tariffs. To be in the public interest, residential and small commercial customers should be no worse off after approval of the agreement and related joint application by WRI and Market Center than they were prior to the approval of the Agreement and Joint Application."

**Q. How were the costs of MCMC necessary to provide service to KGS quantified for ratemaking purposes?**

**A.** MCMC continued to be regulated as a public utility by the KCC. Specifically, Western Resource's (WR's) LDC (subsequently KGS) paid a fixed monthly payment to MCMC based upon the revenue requirement of the MCMC assets at their cost at the date of transfer (1995). It is important to note that the LDC payment was based upon the actual costs of KGS's Transmission operations and that the KGS assets moved to MCMC were done so at cost, including the Yaggy and Brehm Storage facility.

**Q. Did the provision of Transmission and Storage Service by MCMC to KGS meet the definition of an affiliate transaction?**

**A.** Yes. KGS and MCMC were commonly owned by ONEOK, and KGS employees were charged with operating the MCMC system. Although much of the MCMC assets were transferred back to KGS in 2002, this affiliate relationship continues today, including a contractual relationship between the two parties for storage service owned by MCMC. This affiliate transaction is priced above cost and I will discuss a corresponding adjustment later in my testimony.

**Q. Please continue with your discussion of relevant background information.**

**A.** In 1997, WR and ONEOK entered into a Strategic Alliance, with ONEOK acquiring ownership of what today is known as the KGS LDC properties and MCMC assets in exchange for ONEOK Preferred and Common Stock (Docket No. 02-KGSG-495-MER.

In January, 2001 the Yaggy Storage facility was rendered unusable as a result of an explosion that resulted in loss of life and numerous leaks within the city of Hutchinson. As a result, ONEOK sought to move the majority of MCMC assets (noticeably excluding storage) back to under the umbrella of KGS's regulated rate of return Rate Base. Absent the Yaggy incident, the MCMC assets would in all likelihood continue to remain outside the ownership of KGS and the associated revenue requirement issues confronting the Commission in this docket would not be present. The significance of the Yaggy asset to the commercial prospects of MCMC is not contested. [2]

**Q. Please continue with your explanation of the relevant background information concerning the history of MCMC.**

**A.** In Docket 02-KGSG-495-MER, the Commission approved the Stipulation and Agreement between KGS, Staff and CURB. Specifically, the S&A approved the

[2] KGS witness Eliason testified:

"MCMC utilized the capability of Yaggy to offer firm and interruptible storage service. These services were among the most attractive to third parties doing business with MCMC. With the restrictions placed on injections into Yaggy Storage facility and the unknown future of the facility, it is no longer possible to offer the services that have attracted much of the business to MCMC. MCMC's viability to operate as a market center lessened and it is now primarily operating as the transporter for the LDC. Therefore, it makes sense to return the system to KGS." (Testimony Mr. William Eliason, Docket No. KGSG-02-495-MER, p. 5.

transfer of the majority (but not all) of MCMC assets back to KGS. Further the S&A contained a number of provisions, among the more relevant are:

a. KGS is allowed to continue to collect an LDC payment through rates.

b. The agreements, including the Operating and Storage Agreements are cancelled.

c. The issue of whether capital additions put in service by MCMC should be included in KGS Rate Base is set aside until the next KGS rate proceeding.

**Q. Please begin by discussing Staff Adjustment No 7 to Rate Base.**

**A.** I will discuss Staff Adjustment No. 7 to Rate Base in conjunction with Staff Adjustment No. 23 to the Operations, as they are simply the Rate Base and income statement components of the same adjustment. These adjustment alters the revenue requirement components as shown below:

| | |
|---|---|
| Plant In Service: | **$(22,981,213) (RB-7)** |
| Accumulated Depreciation | **$ 1,961,170 (RB-7)** |
| Net Plant in Service | **$ (21,020,043)** |
| Accum. Deferred Income Tax Liab. | **$ 1,598,845 (RB-7)** |
| Depreciation Expense | **$ (579,790) (IS-23)** |
| Ad-Valorem | **$ (204,168) (IS-23)** |

Staff Adjustment RB-7 is necessary to remove the costs of assets placed in service in order to further the commercial interests of MCMC. Staff recommends excluding the original cost of plant placed in service by MCMC subsequent to 1995 that were constructed to seek new commercial opportunities. I have reduced my adjustment by approximately $125 Thousand in new facilities (primarily meter installations and interconnects) from the adjustment that were installed at the request of KGS and that meet the criteria set forth in the 1995 S&A. Staff also made corresponding adjustment to remove the Accumulated Depreciation associated with these assets and the related portion of Accumulated Deferred Income Taxes (ADIT) attributable to these assets. Depreciation Expense and Ad-Valorem taxes calculated on the excluded assets should also be removed from the revenue requirement (IS-23).

KGS's inclusion of such costs in its Rate Base is inappropriate because it has failed to meet the standards for ratemaking recovery as set out in the 1995 S&A between KGS and Staff.[3] In addition, KGS's attempt to shift the costs of a failed commercial venture to captive KGS ratepayers contradicts the testimony of Mr. Eliason, in Docket No. 95-MCIG-298-COC, the original 1995 certification proceeding. I have included Exhibit DND-3 to my testimony that summarizes the adjustments referenced above.

**Q. How do your arguments supporting this adjustment differ from those of Mr. Holloway?**

**A.** There is very little difference between my adjustment and that of Mr. Holloway. Mr. Holloway presents evidence indicating that certain capital expenditures made by MCMC do not meet the used and useful standard necessary for Rate Base inclusion. My arguments supporting Rate Base exclusion are somewhat more general than Mr. Holloway's and can be categorized as two-pronged; (a) the assets do not meet the standard for Rate Base inclusion as set forth in the 1995 S&A, and, (b) inclusion of these expenditures violates the ratemaking principle that ratepayers should be protected from the costs of failed commercial ventures. Mr. Holloway and I are both supporting the exclusion of virtually the same assets. However, there are a number of relatively small expenditures made to further MCMC's commercial interests that I am suggesting should be excluded

[3] KCC Docket 95-MCIG-288-COC.

from Rate Base that Mr. Holloway does not address. This is the principal difference between Mr. Holloway's adjustment and the one I am sponsoring. Mr. Holloway provides a detailed discussion finding that $21.6 Million out of total capital expenditures that can be attributable to the new MCMC venture of $22.9 Million do not meet the used and useful standard. I have attached a schedule outlining Mr. Holloway's Rate Base adjustment entitled DND-4. My adjustment eliminates the entire $22.9 Million (gross asset value before consideration of Accumulated Depreciation) in capital expenditures made by MCMC that relate to the new commercial venture. Therefore, the Commission should consider my testimony and that of Mr. Holloway to be supplementing each other, further reinforcing the validity of removing the costs of these assets, related Accumulated Depreciation Reserve and Accumulated Deferred Income Tax Liability from Rate Base. In addition, there is an associated Depreciation Expense reduction necessary to eliminate this expense from regulated operations.

**Q. Could you please explain how you quantified Rate Base Adjustment No. 7 and Income Statement Adjustment No. 23?**

A. Yes. The information contained in MCMC RB-7 and IS-23 was provided in response to Staff DR No. 165. This response identified the costs of new construction directly attributable to new MCMC assets, the associated ADIT, and the annualized level of Depreciation Expense for those assets. I reduced the adjustment by certain capital expenditures identified in DR 215 (Exhibit DND-5) that met the criteria for Rate Base inclusion as identified in the 1995 S&A.

**Q. Mr. Dittemore, were you assigned to the KCC application in 1995 wherein Western Resources (WR) sought permission to move certain transmission assets to the MCMC?**

**A.** Yes. I was actively involved in that docket on behalf of Staff and participated in the Staff review of the S&A jointly adopted by the Staff and KGS.

**Q. Earlier you mentioned that inclusion of these assets in Rate Base by KGS violated the terms of the 1995 S&A. Could you please provide the basis for this statement?**

A. Yes. The May 22, 1995 S&A specifically states the following[4]:

> "The LDC Agreement will be modified to state that Western Resources will pay only for modifications to the Contributed Assets: i) which it requests and ii) the portions of other such modifications which are attributable solely to LDC operations."

**Q. Could you please explain the intent of this provision from Staff's perspective and how this provision of the S&A impacts the current rate application of KGS?**

A. Yes. The underlying intent of the original application was to provide WR (subsequently KGS) the regulatory flexibility to pursue what it believed to be a very attractive non-regulated commercial opportunity, while at the same time establishing safeguards to protect ratepayers from absorbing costs incurred for the pursuit of MCMC commercial interests. The goal of the provision was to avoid hindsight scrutiny of capital expenditures and identify an appropriate cost assignment between regulated and non-regulated operations that would reflect the new risk/reward opportunities provided to WR's shareholders. In exchange for the regulatory flexibility offered to MCMC to pursue these commercial opportunities, WR and Staff agreed to limit Rate Base recovery of capital expenditures to only those plant additions installed for the exclusive use of LDC ratepayers, or those that were specifically requested by KGS. Such a safeguard

[4] KCC Docket 95-MCIG-288-COC, paragraph 4(c)

was necessary, in my view, to protect consumers from the risk of absorbing costs of MCMC operations. KGS has met neither criteria for the capital expenditures quantified above and therefore these capital expenditures incurred by MCMC designed to capture market opportunities should be removed from Rate Base.

Obviously WR entered into this agreement willingly and believed that the Rate Base safeguard was equitable in exchange for granting it the ability to use LDC assets in order to achieve increased revenue that would flow directly to its shareholders. Thus, WR readily accepted the responsibility of making capital expenditures that would not be recovered from ratepayers in exchange for the opportunity to enhance its earnings, for the benefit of shareholders.

**Q. Earlier you mentioned that the inclusion of MCMC capital expenditures ('new') contradicted the testimony of Mr. Eliason in the 1995 proceeding. Please explain.**

**A.** That is correct. In the 1995 proceeding, Mr. Eliason stated:

> Q. "Please explain the purpose of creating a separate subsidiary for developing and managing the Market Center.
> A. The purpose is two-fold. First a significant amount of market risk is associated with the creation of the Market Center. We are anticipating capital improvements which will cost approximately $25 Million. Under this structure, Western Resources shareholders are accepting the risk that market-based prices for the Market Centers' services will adequately compensate them for this investment." [5]

In the instant application, KGS is attempting to shift the risk of the failed MCMC venture back to its captive customers, contrary to the testimony of WR at the time MCMC was created. These very assets that Mr. Eliason claimed in 1995 would be at-risk to WR shareholders are now being placed in KGS' Rate Base.

[5] Testimony of Mr. William Eliason; Docket No. 95-MCIG-288-COC, p. 9.

**Q. Are there additional assets MCMC constructed during this period that you have not excluded from Rate Base?**

A. Yes. In addition to the nearly $23 Million in capital expenditures referenced above an additional $20.6 Million was expended by MCMC for various construction projects related to replacing pipeline segments and compressor stations associated with its mainline transmission system.

**Q. Please explain the distinction between the assets you are excluding from Rate Base and the capital expenditures that you have elected not to exclude from Rate Base.**

**A.** The assets I have excluded represent those assets identified by KGS as 'new' assets; those necessary to expand the original transmission system to capture non-traditional marketing opportunities. The $20.6 Million of capital expenditures that remain in Rate Base are primarily expenditures to replace line segments and compressor stations that may be broadly categorized as safety related construction. The amount of my adjustment is very close to the estimate of 'new' assets identified in the 1995 proceeding as necessary to capture new business opportunities ($25 Million), lending support to the quantification of $22.9 Million as 'new assets. As envisioned at that time, the costs would not be incurred by ratepayers.[6]

**Q. Have the expenditures made classified as 'replacements' qualify for rate recovery under the 1995 S&A?**

**A.** I don't believe these expenditures meet the criteria outlined in the 1995 S&A for cost recovery. In any event, had the Yaggy incident not occurred, the cost

[6] KCC Docket No. 95-MCIG-288-COC, direct testimony of Bill Eliason, page 9. (This docket is also known as KCC Docket No. 191,839-U)

recovery responsibility of these assets between MCMC and KGS would at least have been shared between the two parties, if not totally assigned to MCMC.

**Q. If you do not believe the construction of these assets met the cost recovery conditions outlined in the 1995 S&A, why have you not proposed an adjustment to exclude such expenditures from Rate Base?**

**A.** I am concerned that eliminating cost recovery of safety related expenditures from Rate Base, regardless of the provisions of the 1995 S&A, could be perceived by KGS as providing a financial disincentive to construct transmission facilities necessary to maintain a safe and reliable system. Therefore, despite the 1995 S&A, I am reluctant to recommend disallowance of expenditures from Rate Base necessary to maintain a safe and reliable transmission system.

For the remainder of my testimony, when I refer to MCMC capital expenditures, I will be referring to the 'new' MCMC investment designed to capture market opportunities.

**Q. Could you please address the provisions of the 2002 Stipulation between various parties and KGS related to the KCC's approval to move these assets back under the umbrella of LDC ownership?**

**A.** Yes. The KCC's order approving the transfer states in pertinent part:

> "Kansas Gas Service should be permitted to place those assets described in Exhibit 5 in its plant accounts at net book value. The parties are not requesting the Commission to make any decision regarding the appropriate treatment of any asset constructed by MCMC after July 1, 1995 at this time. Instead, the parties agreed that the issue of appropriate rate treatment of such assets is reserved for determination in Kansas Gas Services' next rate case. The parties agree that no party will be precluded from raising any issue in Kansas Gas Services' next rate case related to the propriety of including in

> Kansas Gas Services' Rate Base any asset constructed by MCMC after July 1, 1995. When Kansas Gas Service files its next rate case, it shall include in its application a detailed analysis with the cost and benefits to consumers of any new assets, including the reasons for, the details of and amounts of each asset constructed after July 1, 1995." KCC Docket No. 02-KGSG-495-MER.

Thus, all parties reserved the right to make any argument they believed appropriate with regard to ratemaking recovery of assets constructed by MCMC. Furthermore, nothing in the 2002 KCC order supercedes the original 1995 Stipulation outlining the criteria that MCMC capital expenditures must meet in order to be eligible for Rate Base inclusion.

**Q. Please continue with an explanation of Adjustment IS-24.**

A. Staff Adjustment IS-24 reduces Transmission Operating and Maintenance (O&M) costs ($226,283) to eliminate those costs recorded in the test year (unadjusted) associated with assets that are deemed not used and useful by Mr. Holloway. Because the assets are not necessary in the provision of LDC services, the associated O&M costs necessary to maintain these facilities must be eliminated as well. The adjustment was quantified by identifying Transmission O&M costs associated with the assets excluded from Rate Base and is outlined in Exhibit DND-6.

**Q. Please discuss Staff Adjustment IS-25.**

**A.** MCMC Adjustment No. 3 is conceptually similar to IS-24. This adjustment removes the portion of KGS Adjustment IS 16 ($207,798) that relates to increased O&M costs associated with Transmission assets that are deemed no longer used and useful. Thus, IS-24 removes test period costs, while IS-25 removes the portion of KGS's Adjustment 16 that increases O&M costs associated with these same assets. This adjustment is outlined in Exhibit DND-7

KGS Adjustment IS 16 increases O&M costs to reverse credits that were recorded in the test period. KGS employees provided O&M services on behalf of MCMC prior to the date such assets were transferred to KGS (July 2002). During the first ten months of the test period, KGS employees provided O&M services on behalf of MCMC assets. These costs, including labor and non labor costs, were initially recorded as an expense on the books of KGS and then were reversed and transferred to the books of MCMC. KGS reinstates the original charges in KGS Adjustment IS-16 to reflect the costs originally incurred in maintaining those MCMC facilities that have been transferred to KGS. Staff Adjustment IS-25 is necessary to remove the O&M costs included in KGS IS-16 associated with those facilities that are not used and useful.

**Q. Please discuss Staff Adjustment IS-26.**

**A.** IS-26 removes ($583,204) from pro-forma test period operations and is necessary to protect consumers from the negative impacts of the Yaggy incident and is outlined in Exhibit DND-8.

**Q. Please explain how this adjustment relates to protecting consumers from the impact of the Yaggy incident.**

A. KGS is attempting to recover costs associated with assets still owned by MCMC. These costs represent O&M costs that were incurred by KGS during the test period and properly assigned to systems identified as the Getty and Dynegy systems, so named after the entity from whom these systems were acquired. KGS employees performed O&M services on these MCMC assets and the costs were accumulated as charges on the books of KGS. An accounting entry was made monthly to remove these charges on the books of KGS and assign them to the appropriate entity, MCMC. KGS essentially performed services for MCMC during the test period and the costs were originally charged then removed from KGS books. However, MCMC Adjustment No. 16 adds back these costs to the pro-forma results of KGS, essentially adding these costs to the revenue requirement request of KGS.

These costs were incurred in performing maintenance on the Dynegy and Getty systems, assets that are being retained by MCMC. In other words, KGS does not currently own these assets, yet it is attempting to recover the O&M costs associated with maintaining non-KGS assets during in this rate proceeding.

Q. **Has KGS indicated a need to increase the O&M costs for the newly acquired KGS assets beyond what was incurred in the test period?**

**A.** No. KGS has not supported the need for increased maintenance in any information provided to KCC Staff, nor through conversations held between Staff and KGS employees related to MCMC operations. The costs at issue are costs associated with assets not owned by KGS. Because KGS has not requested an increased maintenance function over former MCMC assets, nor indicated that the test period level of O&M applicable to the KGS assets formerly owned by MCMC was deficient, the Commission should reject efforts to shift maintenance costs associated with KGS affiliate owned assets to KGS ratepayers.

**Q. Do you have an alternative adjustment to recommend to the Commission if it rejects IS-26?**

**A.** Yes. If the Commission finds that it does not agree with the underlying rationale supporting Staff Adjustment IS-26, I would offer an alternative adjustment for the Commission's consideration. The cost components supporting the ($583,204) adjustment referenced above is comprised of internal labor, internal labor indirect costs (benefits), vehicle costs, external labor and material and supplies. If the Commission believes the level of internal labor previously assigned to the Getty and Dynegy assets represents an ongoing cost to KGS (as KGS has argued), I suggest that the Commission eliminate ($322,312) in O&M costs that are comprised of external labor and materials and supplies. These costs were directly attributable to the operation of these two systems and cannot be linked to the operation of KGS's Transmission line. While I believe none of the O&M costs associated with operating the Dynegy and Getty systems should be incorporated into KGS's O&M costs, there is even less rationale for including external labor and materials and supplies spent on MCMC's system than for internal labor. These costs cannot be transferred (as can internal labor costs) to the KGS system, thus there is absolutely no support for transferring external labor and materials and supplies from MCMC to KGS. This alternative adjustment is supported in Exhibit DND 8-A

**Q. Please continue with an explanation of Staff Adjustment IS-27.**

A. Adjustment 27 reduces KGS Storage costs from the Brehm and Kanold Storage facilities, ($770,418), as shown on Exhibit DND-9. This adjustment is necessary to reflect the actual costs of providing storage service by KGS's affiliate MCMC . This adjustment reduces the cost of affiliate storage from the existing affiliate contract rate, to the actual cost of providing the service computed on a Rate Base rate of return model. This same pricing model was used in the determination of the lease payment approved by the KCC in Docket No. 95-MCIG-288-COC. KGS has altered the affiliate pricing methodology (actual cost) embedded within the Commission's 1995 order to a more favorable (higher) contract price to the detriment of ratepayers and in conflict with the methodology adopted in the 1995 S&A.

**Q. How does the use of actual cost compare with the Staff's proposed Affiliate Interest Regulations?**

**A.** The Staff proposed Affiliate Interest Rules recommends that services provided from an affiliate to the public utility shall be recorded at the lower of fair market value or fully distributed cost (FDC).

I was unable to determine the fair market value for this transaction, but clearly the fully distributed cost is lower than the affiliate price. I have relied upon the actual costs of ownership and O&M costs supplied by KGS and computed a return on net plant consistent with the rate of return requested by KGS in this proceeding.

**Q. Isn't it true that current affiliate storage costs are significantly less than the storage costs approved by the KCC within the 1995 Operating Agreement executed between MCMC and KGS?**

**A.** Yes. In terms of affiliate storage costs, KGS proposes total costs of $1.3M per year for deliverability of 47,000MMBTU/day. This compares with storage costs of $3M/per year for deliverability of 85,000MMBTU/day as approved in the 1995 agreement. Thus, while affiliate storage costs have declined since the 1995 agreement, deliverability from affiliate storage sources has declined as well, thus the pre and post-Yaggy storage services are not necessarily comparable.

The point Staff wishes to emphasize is that the original agreements were based upon the costs of the facility. KGS has used the Yaggy incident as a triggering event justifying new affiliate storage contracts that are priced in excess of the costs to provide storage service. This is especially ironic given the fact that KGS was allowed to move the Brehm storage facility to its affiliate MCMC at cost.

**Q. Why should the Commission be concerned with the pricing of affiliate transactions?**

**A.** The Commission must be especially vigilant over the pricing of affiliate transactions to ensure that self-dealing does not occur to the detriment of captive ratepayers. In this particular situation, ratepayers will be harmed by paying excessive amounts for storage in excess of the affiliates cost of providing that storage.

The existing contract pricing for Storage service from the Brehm facility is inconsistent with the language in the 1995 S&A that states:

> "This agreement and related Joint Application involving WRI and the Market Center is not intended to negatively impact residential and small commercial customer interests…"

The affiliate contract pricing between MCMC and KGS for Brehm Storage exceeds the cost of providing the storage service and such pricing provisions should be rejected by the Commission.

**Q. Please expand on your two points above concerning the significance that the original LDC payment was based upon cost and the value of assets transferred were at cost.**

**A.** The storage service in question is provided from the Brehm and Kanold Storage facilities. Prior to the formation of MCMC, the Brehm Storage facility was in the Rate Base of WR at its original cost to construct and operate. The Brehm facility was originally owned by KGS and therefore was included in the mix of assets the KCC permitted to be transferred to MCMC in the 1995 transaction. At the time the KCC permitted the assets to be moved to an affiliate, a lease payment was quantified based upon the actual costs of operating the transmission and storage facilities, including Brehm. Ironically, KGS now seeks to recover the costs of an affiliate contract that is priced in excess of the true cost of providing the service, from a facility that transferred to the affiliate at cost. KGS has abandoned the historic pricing methodology related to the Brehm facility to the detriment of its ratepayers. Had the Brehm facility been retained by KGS rather than transferred at cost to MCMC, ratepayers would not be faced with these excessive affiliate prices, instead storage would be priced at the cost of the affiliate to provide the service.

**Q. You've stated that Brehm was formerly owned by KGS, was the Kanold facility a former KGS asset?**

**A.** No. Brehm, like the Kanold facility is owned by MCMC, an affiliate of KGS. Consistent with the KCC Staff's proposed affiliate rules, the Kanold facility should be priced at the lower of fully distributed cost or fair market value. For informational purposes, the Brehm costs account for $682 Thousand of this adjustment while Kanold costs were priced in excess of cost $88 Thousand, for a total adjustment of $770 Thousand.

**Q. Please discuss your proposed refund to KGS customers through the Cost of Gas Rider (COGR).**

**A.** This refund recommendation is necessary to reflect the costs in the COGR that would have occurred as a result of the Yaggy incident if MCMC and KGS had been independent parties. KGS's continued (partial) payment for storage from MCMC related to Yaggy facility after the explosion does not reflect the prudent response of an independent party. This COGR refund is necessary to reflect the reduction in storage costs to KGS that would have occurred after the Yaggy incident if KGS had dealt with MCMC on an arms' length basis. This refund calculation is summarized on Exhibit DND-10. Injections and Withdraws into Brehm and Yaggy Storage are highlighted in Exhibit DND-10A.

**Q. Please continue.**

**A.** One of the goals of public utility regulation is to protect consumers from the potential negative impacts of affiliated transactions. Regulators must be concerned not only with the pricing of affiliated transactions, but also must be vigilant to ensure that the execution of the affiliate contracts do not provide an undue preference for the affiliate, to the detriment of captive utility customers. I believe the actions of KGS subsequent to the Yaggy incident are such an example of preferential treatment provided to an affiliate, resulting in excessive costs being passed to consumers through the COGR These costs would not have been incurred if KGS had contracted for storage services from a non-affiliated party. I am recommending that these costs incurred due to the affiliated relationship be refunded to consumers, in the amount of $2,156,277, representing excess costs incurred by KGS for the period February, 2001 through August 2003. This amount continues to grow at the rate of $69,577 per month.

**Q. Could you please provide some background information for this issue?**

**A.** Yes. In 1995, the KCC approved the application of WR to move certain Transmission, Storage, Production and Gathering Assets to an affiliate (MCMC). As part of the transaction, WR entered into several agreements with MCMC, including a Gas Transportation and Storage Agreement (also known as the "LDC Agreement"). Pursuant to the LDC Agreement, MCMC was to provide 2.1BCF of Storage Capacity to WR, with a withdrawal capability of 85,000 MMBtu per day, with service to be provided from a combination of the Brehm and Yaggy storage facilities. The monthly payment for services utilized by WR was based upon a traditional Rate Base rate of return calculation and was defined as $1.36 Million per month, or $16.4 Million annually. Through discovery in KCC Docket No. 02-495-MER, it was determined that** ** of the total LDC payment related to Yaggy Storage. (Please see confidential Exhibit DND-11).

In January, 2001 the Yaggy Storage facility was rendered unusable as a result of an explosion. As a result, MCMC was unable to meet its contractual obligations to provide storage service to KGS. Shortly afterward, KGS contracted with an unaffiliated third party which it defined as the incremental storage necessary to replace the Yaggy Storage at an annual cost of $767,166, per DR's 214 and 159, attached as Exhibits DND-12 and DND-13. The replacement storage costs acquired from third parties was also recovered through the COGR as a cost of gas. The LDC payment was reduced by this incremental storage cost, thus net storage costs paid by consumers through the COGR did not change as a result of the Yaggy incident.

**Q. Please discuss your recommendation on this issue.**

**A.** The additional storage that KGS identified as necessary to replace the Yaggy Storage was $767 Thousand, significantly lower that the portion of the LDC payment applicable to the Yaggy Storage, ** **. Despite the fact that Yaggy storage was no longer available, KGS continued to include ** **associated with Yaggy in its COGR. I believe that had the LDC agreement been made between unaffiliated parties, KGS would have reduced its payments to MCMC by the full amount of the cost of the Yaggy Storage facility, not merely by the amount it incurred to replace Yaggy storage. If KGS had acted strictly in its own interests, as one would expect in dealing an unrelated entity, it would have suspended payment for the portion of the LDC agreement attributable to Yaggy facility. Instead, it provided preferential treatment to an affiliate by paying for service from a facility that was inoperable, passing along the costs to captive customers and enhancing overall shareholder returns. In essence, KGS continued to pay for a large portion of the Yaggy facility when such facility was not available to KGS as was required under the terms of the LDC Agreement. Once the KGS payment to MCMC ceased pursuant to the 2002 proceeding, KGS continued to include the former lease payment allocated to sales customers in the COGR. In summary, ratepayers should only incur the costs of the replacement storage and should not have been billed for the partial cost of Yaggy via the COGR.

**

** This difference multiplied by the months passed since February 2001, the date Yaggy ceased to be viable, equates to a refund obligation of $2,156,277 through August, 2003.

**Q. Mr. Dittemore, does KGS agree with your assertion that the entire amount of Yaggy payments should have been excluded from the amounts KGS paid MCMC?**

**A.** No. In DR 394 (attached as confidential Exhibit DND-14) KGS States; **

**

**Q. Do you have any response to this assertion that the entire payment for Yaggy should not have been deducted from the KGS payment to MCMC?**

**A.** Yes. It is important to note that **

** Furthermore, based upon information provided by KGS, the injections and withdrawals of the combined Brehm and Yaggy storage decreased 76% after the Yaggy incident.

Yaggy had limited withdrawals subsequent to the explosion with only 43,000MMBTU withdrawn from storage since March 2001. KGS claims that it maintained withdrawal capability of 85,000MMBTU/day after the Yaggy incident, but that deliverability was limited[7]. KGS acknowledges in DR 394 that; ** **

Thus, while combined withdrawals at the facilities decreased 76% subsequent to the Yaggy incident, payments from KGS to MCMC only declined 25%.[8] The unavailable Yaggy Storage was replaced by Deferred Delivery Service obtained by KGS (not MCMC). KGS subsequently obtained additional storage from MCMC from its Kanold facility, however these storage costs were recovered through the COGR as an additional line item cost. Since these costs were not absorbed by KGS, the additional storage doesn't factor into my analysis.

KGS argues that storage costs reflected in its COGR did not increase as a result of the Yaggy incident. However, if KGS had been dealing with its affiliate in an arm's length fashion, it would have terminated payments to MCMC related to Yaggy, resulting in a reduction in storage costs. The favorable treatment KGS has provided to MCMC relative to storage costs has resulted in a foregone benefit to ratepayers.

**Q. Earlier you expressed concern over the term of the new storage contracts, compared with the term of the earlier agreement. Please explain your concern and your recommendation regarding this issue.**

**A.** The original storage agreements for both the Yaggy and Brehm facilities were for twenty year terms. The new agreements, executed in 2002 are for a terms of ** ** years. The original extended term provided assurance to KGS ratepayers that storage would be available. This assurance has been removed as a result of the new 2002 storage agreements. KGS argues that it has no legal liability to provide storage. Therefore, KGS's affiliate could unilaterally determine at the end of the existing term that it will not make its storage assets (Kanold and Brehm) available to KGS. I

[7] DR 159

[8] . $767,166/$3,042,323 referenced in DR 186. While payments ceased at such time as the MCMC assets returned to KGS, the amount formerly paid to MCMC continued to be collected through the COGR.

believe this is a realistic possibility if MCMC believes it could achieve a higher return from third parties versus the return available from KGS, with rates subject to KCC approval.

**Q. Why do you believe MCMC should not be permitted to pursue higher returns from third parties subsequent to the expiration of the existing agreements?**

**A.** The Brehm Storage facility was formerly in the Rate Base of KGS for the primary benefit of KGS customers. Ratepayers currently have the benefit of the Brehm storage facility as a result of the 2002 storage agreements, however that benefit may be terminated by MCMC at the end of the current agreement. The Commission should order that the Brehm storage will be made available to KGS on a firm basis for the remaining term of the 1995 Operating Agreement, consistent with the original pricing methodology used to compute the LDC lease payment. These requirements are necessary to ensure that the spirit of the original S&A is continued; specifically that ratepayers are no worse off as a result of the formation of MCMC.

**Q. Was the storage cost locked in for the twenty-year period?**

**A.** No. The lease payment could be altered, subject to KCC approval, however the clear intent of the S&A was that MCMC assets used by KGS would be priced at cost.

**Q. Mr. Dittemore please discuss the scope of your testimony related to ONEOK's corporate costs included in KGS's revenue requirement.**

**A.** I have identified certain ONEOK costs that should be disallowed for ratemaking purposes as well as identifying other costs that should be assigned to various business units on a basis different than that assigned by ONEOK. Mr. Proctor will discuss and support changes to the general allocator used by ONEOK to assign costs to business units that cannot otherwise be directly assigned or allocated on a causal basis. My testimony identifies the total costs that are properly allocated by the methodology supported by Mr. Proctor. In addition, I am sponsoring various other adjustments to the pro-forma costs of KGS.

**Q. Can you explain the types of costs incurred by ONEOK that are assigned to its business units?**

**A.** Yes. ONEOK, like other publicly held companies performs many general corporate functions including executive management, treasury, investor relations, corporate communications, general accounting and finance, general legal services and the human resource functions, among others. In addition, it incurs many costs at the ONEOK corporate level that can be specifically identified with a specific business unit.

**Q. Mr. Dittemore, should the Commission be concerned with how these corporate costs are assigned to KGS?**

**A.** Yes. ONEOK has many business units that are either unregulated or not regulated on a cost of services basis, as is KGS. Therefore, ONEOK has an incentive to maximize earnings by assigning overhead costs to those rate regulated entities (KGS and Oklahoma Natural Gas), and achieving cost recovery through the ratemaking process. I am not suggesting that ONEOK has acted improperly in its cost allocation process, however, I do believe it has overstated the level of costs properly assigned to KGS. The allocation process is a subjective one and therefore the KCC must evaluate the judgment used by ONEOK in assigning these general corporate costs to KGS.

**Q. Does ONEOK have procedures in place to guide employees in how to assign these common costs among its business units?**

**A.** Yes. ONEOK's Corporate Overhead Allocations Policy and Procedure Manual (KCC DR 4, attached as Exhibit DND-15) details a three-step process to allocate corporate overhead costs. Specifically the manual states;

> The "three-step" allocation process begins with the premise that to the maximum extent possible, costs specifically attributed to a business unit are directly charged to that business unit. Secondly, indirect costs which are significant in amount, but which cannot be directly charged are allocated to business units on the basis of a causal relationship. The indirect costs are accumulated into logical groups or homogeneous pools and are allocated on the basis of a causal relationship, which can be a measure of activity level, output level, or resource consumption. In the third step, any remaining costs, which cannot be associated with a specific, identifiable, casual relationship are pooled as corporate overhead and allocated to business units via the DistriGas Mass Allocation."[9]

This process of directly assigning overhead costs where possible, then allocating on a causal relationship where direct assignment cannot be made is fairly typical among utilities. The direct assignment of overhead costs, where appropriate, permits the entity incurring the cost to bear the financial responsibility. Secondly, causual assignment is preferred to the use of a general allocator as it better reflects the assignment of costs based upon a relevant allocator. An example of an allocation based upon a causal factor is the assignment of Human Resource function costs on the basis of the numbers of employees for each business unit. In this example, the cost of the human resource function for each business unit is closely related to the number of employees of that unit. Assignment of the costs of the Human Resource Department to business units on the basis of employee count is a more accurate reflection of the cost of providing that service to the business unit than the use of a more general allocator, such as the DistriGas methodology.

The process outlined in the Overhead Manual can be summarized as follows:

[9] Corporate Overhead Allocations, Policy and Procedures Manual, p. 2.

1.Costs should be directly assigned to the business unit that may be specifically attributed to that business unit.

2. Where costs cannot be directly assigned (and they are material in amount), they should be grouped in logical groups or homogenous cost pools and allocated on a causal basis.

3. Where neither method 1 or 2 can be used, the remaining costs are assigned using a common allocation methodology.

**Q. Do you believe such a process is a reasonable approach to the assignment/allocation of overhead costs to various ONEOK business units?**

**A.** Yes, however Staff does take exception to the use of the DistriGas allocator as addressed by Mr. Proctor. The guidelines are reasonable with the exception of the use of the DistriGas allocator.

**Q. Has ONEOK complied with its guidelines for overhead cost allocations?**

**A.** I have found several instances in which costs that should have been either directly assigned or allocated on a causal basis were instead allocated through the DistriGas methodology. I believe ONEOK has not followed its own guidelines in these instances and the adjustments below are necessary to more accurately assign costs to KGS. I believe that ONEOK should place additional focus on compliance with its own allocation guidelines.

**Q. Please begin with an explanation of Staff Adjustment IS-28.**

**A.** This adjustment removes approximately $2.5 Million in ONEOK incentive allocation costs from the general DistriGas allocator and instead, allocates these costs on a causal basis. The impact of re-allocating these costs using a causal allocator reduces

Administrative and General (A&G) costs assigned to KGS by ($327,757), as shown on Attachment DND-16.

**Q. Please explain why you believe a causal allocator is preferable to the use of the DistriGas methodology and discuss the causal allocator used in this adjustment.**

**A.** The use of a causal allocator where appropriate is superior to the use of a general allocator such as the DistriGas method. This concept is supported in ONEOK's Allocation Manual. The use of an allocator that bears a direct relationship to the underlying costs will be superior to the use of a general allocator that only bears an indirect relationship to the underlying costs subject to allocation.

The costs in question are a portion of the incentive compensation costs accrued at the ONEOK corporate level. ONEOK has several different types of incentive compensation, including Short and Long Term Incentive Compensation and a President Award. The latter represents cash bonuses awarded to employees based upon individual employee performance. In addition, KGS incurred directly assigned incentive costs. Total pro-forma costs supported by KGS in this application are as follows[10]:

| | |
|---|---|
| ONEOK Corporate Incentives | |
| Long Term Incentives | $910,443 |
| President's Awards | $494,450 |
| Short Term Incentives | $1,712,000 |
| | |
| Total ONEOK Corporate Incentives | $3,116,893 |
| | |
| KGS Incentives | $983,434 |

[10]. The amounts reflected above are those amounts adjusted by KGS in the discovery process. The level of incentives originally supported by KGS were higher than the amounts shown above.

The ONEOK Short and Long Term Incentives are contingent upon achieving corporate financial goals. While the incentive plans are structured differently between ONEOK officers and non-officers, the financial benchmarks contained in each plan are quite similar. Both plans include benchmarks for Earnings Per Share ("EPS") and peer group Shareholder Appreciation[11] targets, while the non-officer program also has the additional criteria of Return on Invested Capital. ONEOK has ignored its own Corporate Overhead guidelines that indicate causal allocation to be preferable to use of a general allocator when a relevant causal factor can be developed. The EPS and Return on Invested Capital criteria have a direct relationship to the Operating Income of ONEOK. Operating Income is defined as Earnings (Net Income) before Interest and Taxes. By definition, EPS is itself a measure of Net Income, while Return on Invested Capital is defined as Net Income before Income Taxes and Interest divided by Total Capital. Thus two of the three factors used in quantifying the level of incentive compensation to be paid to ONEOK corporate employees are **directly** related to Operating Income. The third criteria, Shareholder Appreciation, is indirectly related to Operating Income. There are many factors that influence the value of a given stock however, the relative level of net income results is certainly one important factor affecting stock performance. Clearly there is a strong relationship between Net Income and the criteria outlined in ONEOK's incentive compensation plan.

Rather than using the ratio of Net Income generated by each business unit to the total Net Income of ONEOK in assigning ONEOK incentive costs, ONEOK has used its preferred general allocator, the DistriGas Method, to assign costs to its business units.

[11] Shareholder appreciation is a measure of the total shareholder return compared with the total shareholder return of ONEOK's peer group of companies. The comparison is ranked in a percentile measure on a scale of 0% (worst) to 100% (best). Attaining a relative ranking of 80% (ONEOK's total shareholder return exceeded the shareholder return of 80% of the companies in its peer group) would earn ONEOK officers a 200% of the base level of incentive compensation for that criteria, while a relative ranking of 50% would earn generate 100% of the base level of incentive compensation for that criteria. Similarly Earnings per Share (EPS) has benchmarks established that would permit up to 200% of the base level of incentive compensation to be generated. Each of the criteria, EPS and Shareholder Appreciation, are weighted at 50% for the 2002 plan year.

DistriGas allocation percentages for a given business unit is defined as the average of that business units relative Gross Plant and Investment, Operating Income and Labor Expense to ONEOK's total for each of these categories. Each of the three ratios is averaged for each business unit, and finally the three ratios are averaged to obtain an overall DistriGas allocation ratio for each business unit.

Two of the three DistriGas ratios bear no relationship to costs incurred under ONEOK's incentive compensation plan. Specifically, Gross Plant Investment and Labor Expense are not included in ONEOK's incentive compensation criteria. Achieving certain EPS and return on investment benchmarks are unrelated to the relative level of Gross Plant Investment and Labor Expense for a given Business Unit. For example, a business unit with relatively high Labor Expense may, in fact, be losing money, and not contributing to the financial success of ONEOK such that incentive compensation should be awarded.

However, if a business unit is generating healthy Operating Margins it will contribute towards achieving the financial goals necessary for payment of incentive compensation. Because the ratio of each units Operating Income to total ONEOK Operating Income is a **direct** reflection of the extent to which a given business unit is contributing towards achieving the financial benchmarks set out in ONEOK's incentive compensation plan, the Operating Income ratio should be used to allocate incentive compensation to ONEOK business units. The Commission should reject the use of the Investment and Labor Expense ratios because it does not bear any relationship to incentive compensation.

I utilized the relative ratio of Operating Income for KGS, resulting in a 7.66% KGS allocation factor. Application of this ratio compared with the 21.43% ratio used as the overall average DistriGas ratio for the test period, results in a reduction in costs assigned to KGS of ($327,757). This factor doesn't consider the pro-forma impact of the outcome of this proceeding. The Commission may wish to adopt a revised allocation percentage reflecting the impact of the Commission ordered rate increase in this proceeding.

**Q. Please explain Adjustment IS-29 to ONEOK overhead costs.**

A. Staff Adjustment IS-29 removes one-half of the remaining ONEOK incentive compensation properly allocated to KGS, plus one-half of the incentive compensation costs directly assigned to KGS, reducing pro-forma operating costs ($591,591). The purpose of this adjustment is to properly reflect the sharing of a portion of ONEOK incentive compensation costs with ONEOK shareholders. This adjustment is also summarized along with Staff Adjustment IS-28 in Exhibit DND-16

**Q. Has the KCC ruled on this issue in any recent rate proceedings?**

**A.** Yes. The KCC has rejected a previous adjustment made by Staff to entirely eliminate the costs of incentive compensation. In Docket 99-WPEE-818-RTS, the Commission found that the West Plains Energy should be permitted to recover its incentive compensation and bonus in its revenue requirement as the plan provided incentives to achieve goals important to customers, employees and shareholders. The order found that such an incentive reduced benefit costs of West Plains Energy.

**Q. If the KCC has previously rejected a Staff adjustment to eliminate recovery of incentive costs from ratepayers, why are you proposing such an adjustment in this instance?**

**A.** I believe there are several extenuating circumstances warranting a fresh look at ONEOK's incentive compensation. I would respectfully suggest that: a) the criteria outlined in the ONEOK incentive compensation plans differ from those outlined by the Commission in the West Plains' order; b) the KCC should order a 50% disallowance based upon the rationale that such costs should be shared between ratepayers and shareholders based upon the criteria used to implement the plan and c)

I'm not proposing an adjustment for a portion of ONEOK incentive costs awarded based upon individual employee merit.

As described above, ONEOK's incentive compensation costs are based upon achieving certain financial criteria (EPS, return on investment and Shareholder returns compared to peer groups benchmarks, respecitvely). In the West Plains' order, the KCC indicated that the West Plains incentive program was designed to achieve goals important to customers, employees and shareholders. Conversely, the ONEOK incentive compensation plan is not designed to achieve goals important to customers. The financial criteria directly benefit ONEOK shareholders and at best, arguably provide only an indirect benefit to KGS customers. Noticeably missing from the ONEOK plan is any reference to customer satisfaction or safety criteria that would directly benefit KGS ratepayers.

Secondly, I am proposing a 50% sharing of these costs between ratepayers and shareholders. Clearly, the shareholders benefit from the payment of these incentives and I am recommending this shareholder benefit be reflected in the assignment of these costs between ratepayers and shareholders. If ONEOK fails to achieve financial success, these costs will not be paid to ONEOK employees. Since these costs are discretionary, there is the distinct possibility that these costs would be recovered from ratepayers, but not incurred by the company.

Finally, an additional $494 Thousand in ONEOK incentive costs are estimated to be awarded based upon individual performance at the discretion of ONEOK executive management. I am not proposing an adjustment to remove any portion of these incentive costs.

**Q. Please discuss Staff Adjustment IS-30.**

**A.** Staff Adjustment IS-30 reduces KGS allocated overhead costs by $117,064 in order to reflect the casual allocation of certain audit fees of KPMG, ONEOK's external auditor. This adjustment is outlined in Exhibit DND-17.

Staff has reviewed the KPMG 2002 Audit Strategy Review, a presentation made at a ONEOK Board of Directors' Meeting on August 15, 2002[12].**

**

**Q. How has ONEOK allocated its KPMG annual and quarterly audit costs?**

**A.** ONEOK has assigned these costs using its general allocator, the DistriGas method.

**Q. Why do you believe the DistriGas method is inappropriate to use in allocating KPMG costs to its business units?**

**A.** ONEOK's own guidelines, state that a general allocator should only be used in those instances where costs cannot be directly assigned to the business unit incurring the cost, or when such costs cannot be allocated using causal allocation ratios. Clearly, this is a situation where such costs can be directly assigned to business units based upon **

**

[12] **Confidential Response to KCC Request No. 433.

**Q. Why is the use of a causal allocator in this example resulting in a large adjustment relative to the magnitude of KPMG audit fees?**

**A.** The simple answer is that KPMG will focus its audit work on those areas of ONEOK operations (whether it be a business unit or a process) that it perceives to provide the greatest risk of material financial misstatement. Similarly, ONEOK's internal audit process will focus on those areas of ONEOK operation that it believes poses the greatest financial risk to the company. **

**

KPMG will place greater emphasis on ONEOK operations that pose the greatest financial risk to ONEOK. A perfect example of such a business unit is ONEOK Energy Marketing and Trading (OEM&T), the marketing and trading affiliate of ONEOK. Fortunately, OEM&T has posted solid financial results and thus far has avoided the pitfalls that have plagued so many other marketing and trading organizations. However, the risk profiles of OEM&T is very different from that of KGS, or ONG, resulting in **

**. In summary, the assignment of KPMG audit costs to business units should be a function of the time spent on this engagement relative to each business unit. It is unnecessary and inappropriate to utilize a general allocator such as DistriGas, when a more precise causal allocator is available.

**Q. Please discuss Staff Adjustment IS-31.**

**A.** Staff Adjustment IS-31 reduces allocated ONEOK corporate overhead costs ($3,517,325). This adjustment is necessary to reflect pro-forma KGS costs using the general allocator supported by KCC Staff witness Proctor. The costs subject to allocation have been reduced by Staff Adjustments IS 28-30. This adjustment is premised upon Commission acceptance of the other adjustments. To the extent these adjustments are not adopted by the Commission, it will impact the magnitude of Adjustment IS-30. This adjustment is outlined in Attachment DND-19

Q. **Please discuss Staff Adjustment RB-8 and IS-32.**

**A.** Staff Adjustment RB-8 removes $(423,463) of Net Plant from the Rate Base of KGS and increases Accumulated Deferred Income Taxes $53,712, while IS-32 removes $55,294 for related depreciation expense. This amount reflects KGS' pro-rata share of Oracle Software costs that are not used and useful. This amount represents the disallowance of one-eighth of the total Oracle Software development Costs, specifically related to the Project (Property Accounting) module and is outlined in Exhibit DND-20. These costs represent asset costs assigned to KGS through the DistriGas formula.

**Q. Please explain why this adjustment is necessary.**

**A.** ONEOK installed a comprehensive Oracle accounting software package in 2002. After extensive efforts to 'fix' the Project module, ONEOK determined that another software package was necessary to account for its Property Accounting records. Staff does not believe that the costs associated with non-functioning software should be incurred by ratepayers. Therefore, I have eliminated a pro-rata share of these software costs from the revenue requirement. ONEOK was unable to identify the costs associated with the specific module, therefore I eliminated one-eighth of the costs as there are eight modules in the Oracle software package. ONEOK received a settlement from Oracle that offset the cost of the project. However, the settlement amount was very small relative to the total costs of the project and therefore does not represent a full offset to the cost of the module. The various components of this adjustment are as follows:

| Oracle Disallowance | |
|---|---|
| Plant in Service RB-8 | $(460,325) |
| Acc. Depreciation RB-8 | $36,863 |
| Net Plant | $423,463 |
| Acc. Def. Income Tax (Liability) (DR. adj.) | $53,712 |
| Depreciation Exp. IS-32 | $55,294 |

**Q. Please continue with an explanation of Staff Rate Base Adjustment No. 9 and Staff Income Statement Adjustment No. 33.**

**A.** This adjustment reduces KGS Rate Base $728,889 and increases pro-forma operating expenses $11,141. This adjustment is necessary to remove the costs associated with ONEOK's airplane that are allocated to KGS. Staff reviewed the airplane usage during the test period and determined that the related cost KGS is incurring relative to its usage is excessive. Staff's adjustment is outlined in Exhibit DND-21.

**Q. How did you arrive at the conclusion that the airplane costs assigned to KGS were excessive?**

**A.** I reviewed the ONEOK airplane usage for the test period and assigned cost responsibility for each trip between KGS, ONEOK corporate and 'other'. ONEOK allocates airplane usage using the DistriGas allocator to assign all airplane related costs, including operating costs and the airplane investment (Rate Base). KGS uses the airplane disproportionately to other business units as there are frequent flights between Tulsa and Kansas City. I designated KGS as having cost responsibility for all trips between Kansas City and Tulsa – even in those situations where employees traveling were ONEOK corporate employees. Therefore, I believe my cost responsibility is very conservative.

**Q. If KGS has used the corporate aircraft a disproportionate amount of time, shouldn't the direct assignment versus the use of the Distrigas allocation methodology increase costs?**

**A.** Yes, direct assignment of actual airplane costs would greatly increase the cost assignment to KGS. However, even the understated costs assigned to KGS using the DistriGas formula, overstates the costs compared with a proxy cost for commercial airline alternatives. Using the conservative KGS count of passengers listed above, the overall cost of corporate flights is $1,062 per passenger using the DistriGas method, which includes the return on the aircraft, a portion of which is allocated to KGS. If direct assignment were used (a more appropriate measurement of true aircraft costs), the costs to KGS would be $3,025 per passenger. My adjustment utilizes a proxy cost of $750 per passenger as a benchmark. Thus, my adjustment applies a $750 per flight cost to all KGS passengers (227) and a portion of the flights designated as ONEOK corporate (81). I believe this proxy cost is at the upper end of reasonableness as the vast majority of KGS assigned trips were round trips between Kansas City and Tulsa and flights between Tulsa and Kansas City are relatively cheap.[13] I have quantified the pro-forma KGS direct incurred flights at a cost of $750/each and have eliminated the costs (O&M and Rate Base) assigned to KGS by ONEOK corporate. The schedule below lists the various portions of this adjustment.

[13] One could obtain a round trip flight between Kansas City and Tulsa (or vise versa) booked on July 5th, for July 7th travel for $184.

| ONEOK Corporate Airline | | |
|---|---|---|
| Allocated Plant Asset | RB-9 | $(1,057,045) |
| Acc. Depreciation | RB-9 | $( 328,156) |
| Net Plant | | $(728,889) |
| Staff Pro-Forma Cost | IS-33 | $183,268 |
| Eliminate Allocated O&M | IS-33 | $ (89,044) |
| Eliminate Allocated Depreciation | IS-33 | $ (83,084) |

**Q. Please explain Staff Rate Base Adjustment 10 and Income Statement Adjustment No. 34.**

**A.** Staff Adjustment RB-10 and IS-34 have the following components:

| ONEOK General Corporate Plant | | |
|---|---|---|
| Corporate Allocated Plant | RB-10 | $(4,320,353) |
| Acc. Depreciation | RB-10 | $(610,940) |
| Depreciation Exp. On Gen. Plant | IS-34 | $(524,714) |

This adjustment is necessary to apply the general allocator supported by Mr. Proctor to the ONEOK General Plant and associated Accumulated Depreciation. I have summarized this adjustment in Exhibit DND-22 and 22A. Exhibit DND-22 outlines Adjustment RB-10, while Exhibit 22A sets forth the depreciation adjustment in IS-34.

**Q. Please continue with an explanation of Staff IS-35.**

**A.** This adjustment is related to an adjustment made by Staff witness Baldry related to Customer Service System (CSS) costs. This adjustment removes $212,625 from test period pro-forma overhead costs and is necessary to eliminate the duplication of customer service system costs from the test period.

**Q. This adjustment is identical in amount to the one proposed by Mr. Baldry. Is this a duplication of the adjustment he is sponsoring?**

**A.** No. My adjustment is necessary to eliminate costs of the new Banner CSS system that is not yet operational. Mr. Baldry's adjustment eliminates costs KGS incorporated twice into pro-forma costs. My adjustment is necessary to remove the base level of these costs, because the system will not be operational until 2004, well beyond the end of the test period. More importantly, KGS continues to incur the costs of an existing customer service system with Westar Energy Inc (Westar). I believe the costs of only one CSS system should be incorporated into the revenue requirement of KGS. Therefore, I am removing the licensing costs associated with the Banner System will not be operational for almost two years after the end of the test period in this proceeding. Ratepayers should not be required to pay for the costs of duplicate CSS systems.

**Q. Please discuss Staff Adjustment IS-36 to Operations.**

**A.** Staff Adjustment 36 reduces pro-forma Operating Expenses ($453,510). This adjustment is necessary to recognize an annual level of Transaction Amortization costs, consistent with the estimated ONEOK/Westar acquisition cost estimates provided in Docket No. 97-WSRG-486-MER. I am recommending that $7 Million in Acquisition costs be eligible for recovery in rates, amortized over a forty year period as outlined in the earlier docket. This results in an annual amortization of $78,750 on a Kansas jurisdictional basis. KGS had proposed recovery of $532,260 in annual amortization costs, resulting in an adjustment of ($453,510), as shown on Exhibit DND-23.

**Q. What accounts for the difference in the amount of Staff's adjustment compared with KGS' adjustment?**

**A.** Staff has relied upon the original estimate of Transaction Amortization costs identified during the KCC proceedings, while KGS has quantified additional amounts it believes are Transaction related, increasing the Gross Transaction costs to $24 Million. Staff disagrees with KGS' designation of certain costs as Transaction costs, however the primary argument against including these costs is that they dramatically overstate the original estimate relied upon by Staff in its consideration of the ONEOK acquisition of Westar gas properties.

**Q. Please define Transaction Costs.**

**A.** Transaction costs may be defined as those incremental costs incurred that are directly related to consummating the transaction. Examples of Transaction costs are legal costs incurred in the regulatory process, consulting fees paid, etc. These costs are distinct from Acquisition costs (generally known as the Acquisition Premium) which represents the compensation paid to a third party for the acquired assets, usually in excess of the net book value of the asset purchased. This distinction impacts the relative level of Transaction costs as defined by KGS as $7 Million of the $24 Million represents amounts originally recorded as an Acquisition Premium and was reclassified by KGS.

**Q. Why should the Commission disallow the higher level of Transaction costs requested by KGS?**

**A.** The level of costs requested in this application exceeds those estimated at the time of the acquisition by 350%. As in any transaction of this nature, Staff is concerned about the potential for increased costs as a result of the transaction, whether these costs are classified as Acquisition Premium costs or Transaction costs. Staff must rely upon the good-faith estimates provided by the applicants' in assessing whether the proposal meets the public interest standard. Staff agreed in the earlier docket that the estimated transaction costs of $7 Million would be recovered in the next rate case proceeding to the extent they were prudently incurred. Had more accurate estimates been provided at the time the case was pending, Staff's position regarding ratemaking recovery of the transaction costs may have been different, or additional parameters may have been placed upon the transaction to ensure the public interest standard was met.

I am recommending that the Commission reject the revised estimate of $24 Million in Transaction Costs and instead revert to the estimate upon which the public interest standard was considered, limiting the recovery of Transaction costs to $7 Million, resulting in an annual jurisdictional amortization of $78,750.

Staff believes the Commission should hold ONEOK accountable for the original estimate of transaction costs provided in the original case. The relative level of estimated transaction costs was a consideration in Staff's conclusion that the transaction was in the public interest. Whether a given transaction meets the public interest test is determined from an evaluation of the estimated costs and benefits from the transaction. Such a process necessarily involves estimates and therefore such estimates will naturally differ to some extent from actual costs. However, when the actual cost exceeds the estimate by 350% it calls into question the basis upon which the original estimate was made. Permitting additional Transaction Cost recovery of this magnitude would send an improper signal to Kansas utilities that they will not be held accountable for overly optimistic and excessively conservative cost estimates.

**Q. Do you have additional comments regarding KGS's proposal to recover $532 Thousand in annual amortization costs?**

**A.** Yes. I offer the following points regarding KGS witness Mr. Clark's testimony:

a) $2.4 Million of Interest Charges are included in the Transaction Cost balance that were not included in the original estimate when such costs were known at the time of the transaction

b) $3.7 Million in charges are estimated for the costs of new CSS system that is not yet operational and should properly be charged to CWIP rather than as a deferred Transaction Cost.

c) MCMC related Transaction Costs of $2.8 Million should not be recovered by KGS ratepayers.

**Q. Please discuss your point regarding recovery of Interest Costs.**

**A.** Mr. Clark has included $2.4 Million in Transaction costs associated with a working capital loan assumed by KGS. This cost was known at the time of the original proceeding, however was not included in the original estimate of Transaction costs and therefore should not be considered as an eligible Transaction cost some seven years later. This is an example of a hindsight review attempting to maximize cost recovery of an item that was not previously identified by KGS in a timely manner.

**Q. Please discuss your point regarding the recovery of CSS costs.**

**A.** The transaction cost balance includes $3.7 Million in estimated CSS costs related to a new system that is not yet operational. These costs are more properly considered a cost of the asset and should be capitalized and subsequently moved to Plant in Service at such time as the system is functional. These costs should not be considered transaction costs, but instead should be eligible for Rate Base recovery at such time as the asset is operational.

**Q. Please discuss implications of the MCMC transfer on transaction costs assigned to KGS.**

**A.** Another component of the $24.8 Million in transaction costs is approximately $2.8 Million in transaction costs originally allocated to MCMC. This is another example of a Yaggy-related cost that KGS seeks to recover from captive customers. These affiliate costs should have been written off at the time KGS determined MCMC was no longer a viable commercial entity as originally envisioned.

**Q. Do you believe the Commission should evaluate recovery of transaction costs based upon an estimate of cost savings that have accrued subsequent to KGS ownership?**

**A.** No. I don't agree with the argument supported by Mr. Clark that recovery of these transaction costs should be dependent upon an estimate of merger savings. The Commission has already determined that the previously estimated transaction costs of $7 Million should be recovered, to the extent they were prudently incurred. While such a number was recognized as an estimate that would require true-up, all parties recognized that recovery would be based upon actual costs approximating $7 Million.

**Q. Please continue with an explanation of Staff Adjustment IS 37.**

**A.** Staff IS 37 reduces A&G costs of ($73,372) related to the Yaggy incident from test period operations. These are legal costs incurred directly related to operations of MCMC, the owner of Yaggy. Rather than charging these costs to KGS, these costs should have been assigned directly to MCMC. Ratepayers should not be required to incur costs related to the Yaggy explosion, as this asset is owned by an affiliate, and the costs should be non-recurring. Detail supporting this adjustment is shown on confidential Exhibit DND-24.

**Q. Please continue with an explanation of Staff Adjustment IS-38.**

**A.** Adjustment IS- 38 reduced A&G costs ($245,997) to reflect a three-year amortization of test period legal costs associated with the legacy Kansas Pipeline Partnership (KPP) litigation. This litigation has an extensive history, however such costs are not expected to be recurring as a recent settlement was reached between the parties. Clearly these costs were prudently incurred by KGS in an effort to minimize ongoing transportation costs. However, because these costs are not expected to be recurring, it is inappropriate to reflect the test period level of legal costs as an ongoing annual expense. Staff recommends that the test period costs be amortized over a three year period, resulting in an annual adjustment of $245 Thousand as shown on Exhibit DND-25.

**Q. Please continue with an explanation of Staff Adjustment IS-39.**

**A.** IS-39 increases pro-forma Natural Gas Liquids ("NGL") revenue $48,555, to reflect increases in NGL prices for the twelve-month period ending March, 2003. This adjustment is summarized on Exhibit DND-26. Prices for these products have increased in recent months and such increases should be reflected in test period operations.

**Q. Please continue with an explanation of Staff Adjustment IS-40.**

A. IS-40 reduces the allocation of corporate overhead costs ($130,769) associated with 2003 budgeted IT maintenance cost increases. KGS has proposed Adjustment No. 26, in part to reflect an increase in IT maintenance and licensing fees. These costs are incurred at the ONEOK level, then allocated to KGS using the DistriGas formula. I sampled the costs increases representing over 50% of the total costs and found the estimated costs were overstated by approximately 14%. This adjustment is necessary to reduce the cost increase based upon the results of my sample, relying upon actual costs incurred subsequent to the test period. The result of this adjustment is to reduce ONEOK costs (before allocation), by $610k, resulting in an Adjustment to pro-forma KGS costs of ($130,769) as summarized on Exhibit DND-27.

**Q. Please explain Staff Adjustments IS-41 and IS-42.**

**A.** Adjustment IS-41 reduces test period Worker's Compensation accruals ($213,733), while Adjustment IS-42 reduces Property Damage accruals $243,311. These adjustments are summarized on Exhibits DND-28 and 29, respectively.

**Q. Please describe the accounting process used to record these costs.**

**A.** KGS has established a reserve for potential Worker's Compensation and Property Damages (referred to as a legal reserve). Each month KGS credits a liability account (account 253) and charges account 925, Injuries and Damages, with an accrual (estimate) of monthly expenses for these items. When actual payments are made for Worker's Compensation or property damage, the liability is reduced (debited). Activity in each of these liability accounts provides an indication of the levels of expense charged and payments made for these items. The theory supporting the use of an accrual method of accounting for these costs is that cash payments fluctuate from year to year and the accrual method provides a more normalized level of expense in any given period.

**Q. Why do you believe an adjustment is necessary for the Injuries and Damages associated with Workers Compensation and property damage?**

**A.** Expenses charged to Account 925 for the test period for these two items greatly exceeds actual cash payments made by KGS in any of the last three years. In other words, the test period expenses for Worker's Compensation and Property Damage within Account 925, (Injuries and Damages) is overstated compared with either test period cash payments for these items or the average annual cash payments for these items since January 2000.

**Q. How did you quantify this adjustment?**

**A.** I calculated the pro-forma expense for these two items based upon the average of the annual cash payments these items over the period January 2000 through April 2003.

This pro-forma level of cash payments compared to expense recordings yields an adjustment reducing A&G costs ($457,044).

**Q. Please continue with an explanation of Staff Adjustment IS-43.**

A. Adjustment IS-43 reduces KGS's allocated ONEOK costs ($32,707) to reflect the elimination of $152 Thousand in corporate costs associated with affiliate 'markups'. During 2001, ONEOK corporate labor costs were increased by 2.5% prior to assignment to business units. There is no justification for permitting an affiliate to 'mark up' costs in excess of the actual cost to provide the service, in this case corporate overhead costs. No justification was provided by KGS supporting this cost increase.

**Q. Does this conclude your testimony?**

A. Yes.

## VERIFICATION

STATE OF KANSAS )
) ss:
COUNTY OF SHAWNEE )

David Dittemore, being duly sworn upon his oath deposes and states, that he has read and is familiar with the foregoing *Direct Testimony,* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

David Dittemore

David Dittemore
Consultant for Staff
State Corporation Commission of the
State of Kansas

SUBSCRIBED AND SWORN to before me this 10th day of July, 2003.

PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2003

Pamela J. Griffeth
Notary Public

My Appointment Expires:

**Kansas Gas Service, A Division of ONEOK, Inc.**
**Adjustments Sponsored by David Dittemore**

**Docket 03-KGSG-602-RTS**

**Attachment DND-1**

| Item | Title | RR Element | | Amount | |
|---|---|---|---|---|---|
| 1 | To removed MCMC Assets | Transmission Orig. Cost Plant | $ | 22,981,213 | |
| | | Acc. Dep. | $ | (1,961,171) | RB-7 |
| | | Net Plant | $ | 21,020,043 | |
| | | ADIT | $ | (1,598,845) | |
| | | Depreciation Expense | $ | (377,342) | IS-23 |
| | | Property Taxes | $ | (204,168) | |
| 2 | To remove O&M associated with assets not used and useful | Transmission O&M | $ | (226,283) | IS-24 |
| 3 | To remove portion of pro-forma adjustment related to assets not used and useful | Transmission O&M | $ | (207,798) | IS-25 |
| 4 | To remove O&M costs associated with Dynegy and Getty Systems | Transmission O&M | $ | (583,204) | IS-26 |
| 5 | To eliminate affiliate storage costs charged in excess of actual affiliate costs | A&G | $ | (770,418) | IS-27 |
| 6 | To reallocate incentive compensation Costs | A&G | $ | (327,757) | IS-28 |
| 7 | To assign 50% of incentive compensation costs w/Shareholders | A&G | $ | (591,591) | IS-29 |
| 8 | To properly allocate KPMG Audit Costs | A&G | $ | (117,064) | IS-30 |
| 9 | To reflect impact of Proctor Allocation Methodology on OneOk Corporate Costs | A&G | $ | (3,517,325) | IS-31 |
| 10 | To remove pro-rata portion of Oracle Software costs, not used and useful | Asset | $ | (460,325) | |
| | | Acc. Dep. | $ | (36,863) | RB-8 |
| | | Net Plant | $ | (423,463) | |
| | | ADIT (reduction) | $ | (53,712) | |
| | | Depreciation Exp. | $ | 55,294 | IS-32 |
| 11 | To reflect re-allocation of airplane costs | | | | |
| | KGS Allocated Airplane Asset | | $ | (1,057,045) | |
| | KGS Allocated Acc. Depreciation | | $ | (328,156) | RB-9 |
| | KGS Net Rate Base | | $ | (728,889) | |
| | KGS Allocated Depreciation Expense | | $ | (83,084) | |
| | KGS Allocated O&M Costs | | $ | (89,044) | IS-33 |
| | KGS Pro-Forma Cost @ Assumed Commercial Rate | | $ | 183,268 | |
| | Net A&G Adjustment | | $ | 94,224 | |
| 12 | To reflect impact of Proctor Allocation Methodology on General Assets allocated to KGS Plant | | $ | (4,320,352) | |

**Kansas Gas Service, A Division of ONEOK, Inc.**
**Adjustments Sponsored by David Dittemore**

**Docket 03-KGSG-602-RTS**

**Attachment DND-1**

| | | | | | |
|---|---|---|---|---|---|
| | Acc. Depreciation | | $ | (610,940) | RB-10 |
| | Net Plant | Net Rate Base | $ | (3,709,412) | |
| | Depreciation Expense | Depreciation | $ | (524,714) | IS-34 |
| 13 | To Remove Banner related costs CSS Costs | A&G | $ | (212,625) | IS-35 |
| 14 | To Remove excessive Transaction Costs | A&G | $ | (453,510) | IS-36 |
| 15 | To Remove Yaggy related legal Costs | A&G | $ | (73,372) | IS-37 |
| 16 | To amortize non-recurring KPP Legal Costs | A&G | $ | (245,997) | IS-38 |
| 17 | To Increase Other revenue due to pro-forma increase in liquids revenue | Other Revenue | $ | 48,555 | IS-39 |
| 18 | To Reduce KGS Proforma IT Mtce Costs | A&G | $ | (130,769) | IS-40 |
| 19 | To reduce KGS Workers Comp. Expense based upon test period payouts | A&G | $ | (266,390) | IS-41 |
| 20 | To reduce Legal Reserve Accruals based upon historic levels of payments | A&G | $ | (243,311) | IS-42 |
| 21 | To eliminate 'markup' of OneOk overhead costs | A&G | $ | (32,707) | IS-43 |

950502-0148

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

| | | |
|---|---|---|
| In the Matter of the Joint Application of Western Resources, Inc. (Western Resources) and Mid Continent Market Center, Inc. (Market Center); for Issuance of a Certificate of Convenience and Authority to the Market Center to Transact the Business of a Natural Gas Public Utility and to Provide Certain Services as a Natural Gas Market Center; for Approval of Certain Agreements By and Between the Market Center and Western Resources; for Approval of Western Resources to Contribute Assets to the Market Center; for Approval of the Market Center to Incur Debt Obligations; for Approval of Western Resources to Lend Funds to the Market Center; and for Approval of Tariffs, Rates and General Rules and Regulations for the Market Center | ) | Docket No. 191,839-U |

STIPULATION AND AGREEMENT

This Stipulation and Agreement (Agreement) is entered into on this 22nd day of May, 1995, by and between Western Resources, Inc. (Western Resources) and Mid Continent Market Center, Inc., (Market Center) (collectively "Applicants"), the Staff of the Kansas Corporation Commission, Citizens' Utility Ratepayer Board, Panhandle Eastern Pipe Line Company, the City of Belleville, Kansas, and Mountain Iron & Supply Company (collectively "Parties").

1. On December 22, 1994, Applicants filed their Joint Application in this docket seeking the following authorities and approval: for a certificate of convenience and authority authorizing the Market Center, as a natural gas public utility, to engage in the business of a natural gas market center and to provide the services described herein; for approval of proposed tariffs, rules, regulations, rates, and terms and conditions of service pursuant to which the Market Center will provide market center services; for approval of agreements by and between Western

Resources and the Market Center; for approval of payments to the Market Center from Western Resources to be reflected in Western Resources' natural gas LDC cost of service; for approval of the Market Center to incur certain debt obligations and for Western Resources to lend funds to the Market Center; for approval of Western Resources to assign and contribute assets to the Market Center and to hold stock of the Market Center after certification; and for approval of the Market Center to construct new pipeline extensions.

2. Following the filing of the Joint Application, Applicants met with the Staff in an effort to resolve issues related to the application. As a result of those meetings and discussions with the intervenors, the Parties have reached the following stipulations and agreements in this docket. Because all parts of this Agreement are interrelated, the Parties agree to remain bound by the Agreement only if the Commission approves the Agreement in its entirety.

3. The Parties agree that, with the modifications and clarifications herein agreed upon, approval of the relief requested in the Joint Application and accompanying documents is in the public interest and should be approved by the Commission expeditiously. This Agreement and related Joint Application involving WRI and the Market Center is not intended to negatively impact residential and small business customer interests from the standpoint of transactions between the parties, terms and conditions of service, agreements by and between the parties, and related tariffs. To be in the public interest, residential and small business customers should be no worse off after approval of the Agreement and related Joint Application by WRI and Market Center than they were prior to approval of the Agreement and Joint Application.

4. The modifications and clarifications to the Gas Transportation and Storage Agreement between Western Resources and Market Center (LDC Agreement) supported by the

Parties are attached as Exhibit A to this Agreement. The effects of the modifications are as follows:

a. The LDC Agreement will be amended to state that Western Resources may contract with Market Center under the Market Center's tariffs for services not included in LDC Agreement.

b. The LDC Agreement will be amended to exclude gathering services from those provided under the LDC Agreement and the monthly LDC Payment reduced from $1,485,000 to $1,366,000 to reflect the elimination of gathering services from the LDC Agreement. Exhibit B is the proposed Market Center tariff containing its rate schedules and General Terms and Conditions. CURB agrees with the amendment to exclude gathering services from the LDC Agreement, but reserves the right to review the reasonableness and regulatory treatment of the related payment amount and related methodology in future proceedings before the Commission.

c. The LDC Agreement will be modified to state that Western Resources will pay only for modifications to the Contributed Assets: i) which it requests and ii) the portions of such other modifications which are attributable solely to LDC operations.

5. In any case in which the revenue requirement for Western Resources' natural gas LDC operations served from Western Resources' Kansas intrastate pipeline system is determined after the commencement of service by the Market Center, an adjustment to Western Resources' natural gas LDC revenue requirement (the Market Center Credit) will be calculated as provided in Exhibit C.

6. The following issues are resolved as follows:

   a. The treatment, for ratemaking purposes, of the proceeds from any sale of the Contributed Assets by Market Center will be resolved by the Commission at the time of such sale. Without waiving its right to make other arguments concerning the ratemaking treatment of such proceeds, Western Resources agrees that the ownership, *per se*, of such Contributed Assets by the Market Center rather than by Western Resources will not bind the Commission in resolving the issue and that the issue should be decided on the basis of the applicable law and regulations.

   b. In the event the Market Center ceases doing business as a public utility in the state of Kansas and the Market Center's assets are conveyed by Market Center to Western Resources, the Market Center's assets shall be transferred to Western Resources' books at an amount no greater than their net book value as of the date of such transfer.

   c. Pending the issuance by the Commission of rules and regulations pursuant to K.S.A. 66-1,203 concerning the confidentiality of contracts executed by public utilities within the Commission's jurisdiction, contracts for service executed between the Market Center and its customers shall be filed with the Commission and maintained as confidential materials. Upon the effective date of rules and regulations to be issued by the Commission under K.S.A. 66-1,203, such contracts shall be subject to the rules and regulations related to confidentiality issued under the provisions of such statute.

d. Notwithstanding any provision of the LDC Agreement to the contrary, no adjustment to the LDC Payment may be made effective unless first approved by the Commission under the provisions of K.S.A. 66-117_.

7. By entering into this Agreement, the Parties should not be deemed to have acquiesced in any ratemaking principle, valuation methodology, reasonableness of affiliated interest transactions, method of cost of service determination, or rate design methodology in future rate proceedings, except for the provisions related to the calculation of the MCMC Credit By entering into this Agreement, CURB basically agrees t· .fer to a future Commission proceeding its review of the reasonableness of payments between WRI and the Market Center, regulatory treatment of transactions, along with related tariffs and rates. The absence of those issues from this Agreement does not necessarily mean that CURB acquiesces in those issues.

8. If the Commission issues orders in Docket No. 191,839-U which approves this Agreement in its entirety, the Parties waive their rights under K.S.A. 66-118a *et seq.* to judicial review of such orders.

IN WITNESS WHEREOF, the Parties have signed this Stipulation and Agreement as of the date first above shown.

Respectfully submitted,

WESTERN RESOURCES, INC.

Staff of
KANSAS CORPORATION COMMISSION

John Hon
MID CONTINENT MARKET
CENTER, INC.

Nicole K. Bryant
CITIZENS' UTILITY RATEPAYER BOARD

Dated: May 22, 1995

Kansas Gas Service, A Division of Oneok, Inc.
Calculation of Adjustments to Remove Assets Constructed for use by MCMC net of assets exclusively used by KGS
Staff Adjustment No. 23 to the Income Statement and Staff Adjustment No. 7 to Rate Base

| | Original Cost | Acc. Depreciation | Net Plant | Acc. Deferred Income Taxes | Depreciation Expense | Ad Valorem - Rate |
|---|---|---|---|---|---|---|
| Field Measuring | $ 674.79 | $ (5,493.53) | $ 6,168.32 | $ (4,455.55) | $ 8.10 | $ 59.91 |
| Transmission Plant Land and Rights of Way | 482,902.54 | 5,936.77 | $ 476,965.77 | (3,674.62) | 367.41 | $ 4,632.77 |
| Str. And Improvements - Comp. Stations | 262,258.20 | 48,033.87 | $ 214,224.33 | 7,873.89 | 613.79 | $ 2,080.76 |
| Transmission Mains | 13,146,469.35 | 786,186.12 | $ 12,360,283.23 | (1,012,769.67) | 204,593.63 | $ 120,055.43 |
| Compressor Station | 3,615,268.88 | 668,109.26 | $ 2,947,159.62 | (199,255.09) | 24,222.30 | $ 28,625.76 |
| Measuring and Regulating Equip. | 5,455,152.27 | 458,132.75 | $ 4,997,019.52 | (386,458.54) | 146,743.60 | $ 48,536.05 |
| Communications Equp. - General | 18,487.34 | 265.30 | $ 18,222.04 | (105.55) | 793.11 | $ 176.99 |
| **Subtotal** | **$ 22,981,213.37** | **$ 1,961,170.54** | **$ 21,020,042.83** | **$ (1,598,845.13)** | **$ 377,341.94** | **$ 204,167.68** |

Kansas Gas Service, A Division of Oneok, Inc.
Calculation of Adjustments to Remove Assets Deemed Not Used and Useful by Staff Witness Larry Holloway

| | Original Cost | Acc. Depreciation | Net Plant | Acc. Deferred Income Taxes | Depreciation Expense | Ad-Valorem Exp |
|---|---|---|---|---|---|---|
| ANR Comperssor Station and Interconnect | 2,693,156.45 | 416,137.25 | 2,277,019.20 | (107,388.99) | 102,910.85 | $ 22,116.69 |
| Bushton Compressor Station and Interconnect | 5,623,190.77 | 605,048.31 | 5,018,142.46 | (261,591.33) | 180,229.16 | $ 48,741.22 |
| 24" Pipeline - Hutchinson to Yaggy | 3,334,312.83 | 201,891.90 | 3,132,420.93 | (261,591.33) | 65,019.10 | $ 30,425.20 |
| 20" Pipeline - Yaggy to Bushton | 9,189,361.98 | 560,166.73 | 8,629,195.25 | (712,731.68) | 181,815.95 | $ 83,815.37 |
| 12" Pipeline - Satanta outlet west | 501,301.74 | 20,365.37 | 480,936.37 | (20,814.25) | 9,775.38 | $ 4,671.33 |
| ANR Alden Interconnect | 306,254.74 | 30,659.81 | 275,594.93 | (25,505.17) | 8,054.50 | $ 2,676.85 |
| **Total not Used and Useful** | **21,647,578.51** | **1,834,269.37** | **19,813,309.14** | **(1,389,622.75)** | **547,804.95** | **192,446.67** |

Docket No. KGSG-602-RTS
Exhibit DND-5

**Kansas Corporation Commission**
Docket Number 03-KGSG-602-RTS
Information Request

Data Request: KCC 215::MCMC Captial Expenditures
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: Apr 18, 2003
Date Information Needed: Apr 28, 2003
Requested By: Dittemore, David



Please Provide the Following:

Please identify any capital expenditure made by MCMC subsequent to 1995 that was incurred at the request of either Western Resources or KGS. For each capital expenditure, please provide the associated cost, copies of the request made by WR/KGS and the underlying rationale provide by the requesting entity supporting the need for the asset.

Requests by Western Resources or Kansas Gas Service for facilities that resulted in capital expenditures by the MCMC were limited and, to the best of our knowledge, included only three requests for interconnects on the MCMC pipeline in order for Kansas Gas Service to serve customers. In these cases the MCMC would provide a tap to the pipeline and Kansas Gas Service would provide the meter and regulating equipment to serve the customer.

Attached are three MCMC job orders for pipeline taps and three Kansas Gas Service job orders for installation of meter and regulating equipment.

Kansas Gas Service personnel may have recommended to MCMC construction projects related to pipeline, compressor station or meter station maintenance or replacement; however, these recommendations would have been as contract operator for the MCMC and the MCMC would have had the ultimate determination as to which recommendations to accept.

Prepared by: R. H. Tangeman

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.



Signed: [signature]

Date: 4/28/03

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Cost associated with Assets not Used and Useful
Staff Adjustment No. 24 to the Income Statement

Docket No. 03-KGSG-602-RTS
Exhibit DND-6

| | CC Number | | 850-860 | | 861-867 | | Total Transmission O&M | | Adjustment to Eliminate Certain O&M Costs |
|---|---|---|---|---|---|---|---|---|---|
| OKE Network Computers | 1513 | $ | 217,464 | $ | - | $ | 217,464 | | |
| OKE Telecom | 1514 | $ | 415,733 | $ | - | $ | 415,733 | | |
| OKE Environmental MGMT. | 1714 | $ | 119 | $ | - | $ | 119 | | |
| KGS Reg. Compliance | 2752 | $ | 12,315 | $ | - | $ | 12,315 | | |
| KGS Engineering | 2753 | $ | 10,424 | $ | 18,433 | $ | 28,856 | | |
| KGS Operations | 2754 | $ | 8,389 | $ | - | $ | 8,389 | | |
| KGS General Mapping | 2755 | $ | 4,686 | $ | - | $ | 4,686 | | |
| KGS Topeka | 3541 | $ | 603 | $ | - | $ | 603 | | |
| KGS Transmission Operations Staff | 3611 | $ | 207,542 | $ | 62,657 | $ | 270,199 | | |
| KGS Transmission LDC | 3612 | $ | 1,171,338 | $ | 364,964 | $ | 1,536,302 | | |
| KGS Pratt Compressor Station | 3613 | $ | 27,032 | $ | 45,674 | $ | 72,706 | | |
| KGS Bison Compressor Station | 3614 | $ | 6,808 | $ | 20,363 | $ | 27,170 | | |
| KGS Manhattan Compressor Station | 3615 | $ | 6,832 | $ | 4,243 | $ | 11,075 | | |
| KGS Marysville Compressor Station | 3616 | $ | 5,361 | $ | 9,171 | $ | 14,532 | | |
| KGS Great Bend | 3621 | $ | 3,167 | $ | 2,058 | $ | 5,225 | | |
| KGS Pratt Compressor Station | 3622 | $ | 2,431 | $ | 2,347 | $ | 4,778 | | |
| KGS Hutchinson | 3631 | $ | 563 | $ | - | $ | 563 | | |
| KGS McPherson | 3635 | $ | 1,258 | $ | 388 | $ | 1,646 | | |
| KGS Salina | 3641 | $ | 317 | $ | 283 | $ | 600 | | |
| KGS Beloit | 3642 | $ | 324 | $ | 198 | $ | 522 | | |
| KGS Concordia | 3643 | $ | 104 | $ | - | $ | 104 | | |
| KGS Abilene Transmission Store Materials | 3645 | $ | 221 | $ | 217 | $ | 438 | | |
| KGS Manhattan Compressor Station | 3651 | $ | 765 | $ | 229 | $ | 994 | | |
| KGS Junction City | 3652 | $ | 357 | $ | - | $ | 357 | | |
| KGS Marysville | 3653 | $ | 194 | $ | 219 | $ | 413 | | |
| KGS Staff | 3655 | $ | 133,242 | $ | 22,570 | $ | 155,812 | | |
| KGS MCMC Satanta MP12 Compressor Static | 3660 | $ | 13,018 | $ | 17,378 | $ | 30,395 | | |
| KGS MCMC Ulysses Pipe | 3661 | $ | 33,569 | $ | 12,557 | $ | 46,126 | | |
| KGS MCMC Ulysses Compressor Station | 3662 | $ | 15,247 | $ | 5,740 | $ | 20,987 | | |
| KGS MCMC Minneola Pipe | 3665 | $ | 95,179 | $ | 84,814 | $ | 179,993 | | |
| KGS MCMC Minneola Compressor Station | 3666 | $ | 169,064 | $ | 102,792 | $ | 271,856 | | |
| KGS MCMC Duke Compressor Station | 3667 | $ | 478 | $ | 631 | $ | 1,109 | | |
| KGS MCMC Mullinville Compressor Station | 3669 | $ | 20,573 | $ | 33,582 | $ | 54,154 | $ | 54,154 |
| KGS MCMC Calista Pipe | 3670 | $ | 68,636 | $ | 44,194 | $ | 112,830 | | |
| KGS MCMC Calista Compressor Station | 3671 | $ | 201,213 | $ | 176,489 | $ | 377,701 | | |
| KGS MCMC Brehm Compressor | 3672 | $ | 615 | $ | 2,496 | $ | 3,111 | | |
| KGS MCMC Spivey Compressor Station | 3673 | $ | 1,449 | $ | 8,089 | $ | 9,538 | | |
| KGS MCMC Hutchinson Pipe | 3676 | $ | 71,512 | $ | 55,460 | $ | 126,971 | $ | 126,971 |
| KGS MCMC Hutchinson Compressor Station | 3677 | $ | 24,982 | $ | 40,284 | $ | 65,266 | | |
| KGS MCMC Yaggy Compressor Station | 3678 | $ | 20,949 | $ | 4,570 | $ | 25,519 | $ | 25,519 |
| KGS MCMC Bushton Compressor Station | 3679 | $ | 8,189 | $ | 11,450 | $ | 19,639 | $ | 19,639 |
| KGS MCMC Abilene Compressor Station | 3680 | $ | 10,678 | $ | 8,329 | $ | 19,007 | | |
| KGS MCMC McPherson Compressor Station | 3681 | $ | 29,861 | $ | 43,836 | $ | 73,698 | | |
| KGS MCMC Pipe North | 3685 | $ | 890,472 | $ | 204,898 | $ | 1,095,370 | | |
| KGS MCMC Pipe Pratt | 3686 | $ | 114,766 | $ | 465 | $ | 115,231 | | |
| KGS MCMC Contra | 3690 | $ | (1,411,731) | $ | (698,289) | $ | (2,110,020) | | |
| MCTI Getty Transmission | 3691 | $ | 4,785 | $ | 3,399 | $ | 8,184 | | |
| KGS MCTI Getty Western Region | 3692 | $ | 95,025 | $ | 86,155 | $ | 181,181 | | |
| KGS Getty Contra | 3693 | $ | (96,334) | $ | (89,028) | $ | (185,361) | | |
| KGS Dynegy Transmission | 3713 | $ | 101,750 | $ | 306,239 | $ | 407,989 | | |
| Dynegy Transmission Contra | 3714 | $ | (94,447) | $ | (305,621) | $ | (400,068) | | |
| KGS Wichita | 3721 | $ | 15 | $ | - | $ | 15 | | |
| KGS Wichita Constr. | 3724 | $ | 364 | $ | 2,597 | $ | 2,961 | | |
| KGS Wichita P&M | 3727 | $ | 4,226 | $ | 405 | $ | 4,631 | | |
| KGS Humbolt Warehouse | 3861 | $ | 24 | $ | - | $ | 24 | | |
| KGS El Corado | 3911 | $ | 51 | $ | 186 | $ | 237 | | |
| | 4976 | $ | 252 | $ | 308 | $ | 560 | | |
| | | $ | 2,632,019 | | 718,418.17 | $ | **3,350,437** | **$** | **226,283** |

Adjustments
1. To eliminate O&M associated with assets no longer used and useful.

Transmission O&M Costs by Cost Center
Source: DR 76; Sorted GL Information
Per Book Information - Does no Consider Impact of IS 16

Kansas Gas Service, A Division of ONEOK Inc.
To eliminate the Applicant's Pro Forma Adjustment Related to Assets that Are No Longer Used And Useful
Staff Adjustment No. 25 to the Income Statement

| | CC Number | O&M Sept. - Dec. 01 | O&M Jan. - June 02 | Total Test Period | Test Period Adjustment |
|---|---|---|---|---|---|
| KGS MCMC Administration | 3655 | $ 4,599.17 | $ 150,386.49 | $ 154,985.66 | |
| KGS MCMC Satanta MP12 Compressor Station | 3660 | $ - | $ 14,627.66 | $ 14,627.66 | |
| KGS MCMC Ulysses Pipe | 3661 | $ 24,598.33 | $ 20,847.46 | $ 45,445.79 | |
| KGS MCMC Ulysses Compressor Station | 3662 | $ 413.17 | $ 10,365.41 | $ 10,778.58 | |
| KGS MCMC Minneola Pipe | 3665 | $ 116,846.16 | $ 63,013.75 | $ 179,859.91 | |
| KGS MCMC Minneola Compressor Station | 3666 | $ 23,280.56 | $ 163,768.01 | $ 187,048.57 | |
| KGS MCMC Duke Compressor Station | 3667 | $ 35.73 | $ 1,073.14 | $ 1,108.87 | |
| KGS MCMC Mullinville Compressor Station | 3669 | $ 4,378.94 | $ 40,916.19 | $ 45,295.13 | $ 45,295 |
| KGS MCMC Calista Pipe | 3670 | $ 85,647.90 | $ 27,046.61 | $ 112,694.51 | |
| KGS MCMC Calista Compressor Station | 3671 | $ 123,617.20 | $ 137,180.76 | $ 260,797.96 | |
| KGS MCMC Brehm Compressor | 3672 | $ 181.27 | $ 2,930.10 | $ 3,111.37 | |
| KGS MCMC Spivey Compressor Station | 3673 | $ 606.72 | $ 8,930.83 | $ 9,537.55 | |
| KGS MCMC Hutchinson Pipe | 3676 | $ 73,072.31 | $ 52,077.78 | $ 125,150.09 | $ 125,150 |
| KGS MCMC Hutchinson Compressor Station | 3677 | $ 432.38 | $ 42,960.91 | $ 43,393.29 | |
| KGS MCMC Yaggy Compressor Station | 3678 | $ 3,958.16 | $ 19,957.32 | $ 23,915.48 | $ 23,915 |
| KGS MCMC Bushton Compressor Station | 3679 | $ 1,908.58 | $ 11,528.99 | $ 13,437.57 | $ 13,438 |
| KGS MCMC Abilene Compressor Station | 3680 | $ 1,493.10 | $ 12,732.10 | $ 14,225.20 | |
| KGS MCMC McPherson Compressor Station | 3681 | $ 2,046.95 | $ 49,864.88 | $ 51,911.83 | |
| KGS MCMC Pipe North | 3685 | $ 269,849.36 | $ 410,544.84 | $ 680,394.20 | |
| KGS MCMC Pipe Pratt | 3686 | $ 26,223.79 | $ 85,853.26 | $ 112,077.05 | |
| ? | 4976 | | $ 308.14 | $ 308.14 | |
| Total MCMC Transmission System | | $ 763,189.78 | $ 1,326,914.63 | $ 2,090,104.41 | $ 207,798 |
| Mass Allocator Credits Reversed in Adj. 1 KGS IS 16 | | | | | |

**KGS - Test Period Charges that Offset Monthly Transmission O&M Credits (MCMC Allocation)**
**These are costs by CC that comprise the first portion of KGS Adj.1 within IS 16**
**Only Transmission O&M is shown here.**
**The Purpose is to quantify CC costs that should be eliminated from KGS' revenue requirement**

Kansas Gas, A Division of ONEOK Inc.
To Remove Operating and Maintenance Expenses Associated with Dynegy and Getty Cost Centers
Staff Adjustment No. 26 to the Income Statement

| Account Category | Dynegy | Getty | Total |
|---|---|---|---|
| 750-759 | $ - | $ - | |
| 760-767 | $ - | $ - | |
| 813-826 | $ - | $ (125) | |
| 830-837 | $ - | $ - | |
| 850-860 | $ (94,069) | $ (95,489) | |
| 861-867 | $ (305,167) | $ (88,479) | |
| Subtotal Transm. O&M 850-867 | $ (399,236) | $ (183,968) | **$ (583,204)** |

Conclusion: Dynegy and Getty Transmission O&M Costs should be removed from the test year as these facilities were not transferred to KGS. Non O&M costs are immaterial and since they haven't been examined they will not be adjusted.

**Analysis Dynegy/Getty Costs**
**Source: GL Credits recorded w/description of Dynegy/Getty Transfer**
**These credits were reversed in KGS IS 16, thus they are included in the Proposed Revenue Requirement**

Docket No. 03-KGSG-602-RTS
Exhibit No. DND-8-A

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Backup Recommendation - Non Labor Charges
Alternative Scenario for Calculating Staff Adjustment No. 26 to the Income Statement

Tranmission Account Summary
Total for Cost Center 3692 & 3713

| Acct | | Labor | | Other |
|---|---|---|---|---|
| Operations | | | | |
| 850 | $ | 1,204 | $ | 18 |
| 851 | $ | - | $ | - |
| 852 | $ | 1,204 | $ | 18 |
| 853 | $ | 9,465 | $ | 24,891 |
| 854 | $ | - | $ | - |
| 855 | $ | - | $ | - |
| 856 | $ | 69,667 | $ | 25,398 |
| 857 | $ | 30,626 | $ | 18,261 |
| 858 | $ | 557 | $ | 3,247 |
| 859 | $ | 2,498 | $ | 10,563 |
| 860 | $ | 2,183 | $ | 10,741 |
| Subtotal | $ | 117,404 | $ | 93,137 |
| Maintenance | | | | |
| 861 | $ | 31,865 | $ | - |
| 862 | $ | 7,625 | $ | 1,028 |
| 863 | $ | 69,938 | $ | 35,343 |
| 864 | $ | 51,061 | $ | 192,805 |
| 865 | $ | 2,167 | $ | - |
| 866 | $ | 564 | $ | - |
| 867 | $ | - | $ | - |
| Subtotal | $ | 163,219 | $ | 229,176 |
| Total | $ | 280,624 | **$** | **322,312** |

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Affiliate Storage Costs
Staff Adjustment No. 27 to the Income Statement

| Data Request | | Brehm | Notes | | Kanold | Notes |
|---|---|---|---|---|---|---|
| a. Gross Plant in Service as of 8/31/02 | | 1,881,735 | | | 708,192 | |
| b. Accumulated Depreciation as of 8/31/02 | | 952,018 | | | 57,344 | |
| Net Plant | | 929,717 | | | 650,848 | |
| c. ADIT Liability at 12/31/01 | | (129,256) | | | 13,445 | |
| d. O&M Expense for twelve months ended 8/31/02 | | 59,310 | A | | 61,920 | A |
| e. Property tax expense for twelve months ended 8/31/02 | | 110,708 | | | 110,516 | |
| f. Depreciation expense for the twelve month period ended 8/31/ | | 75,264 | | | 27,528 | |
| **Revenue Requirement Calculation** | | | | | | |
| Return on Rate Base (Calculated at 9.4162% requested by KGS) | | 75,373 | | | 62,551 | |
| Tax Component on Wt. Equity Cost | | 17,384 | | | 14,427 | |
| O&M Expense | | 59,310 | | | 61,920 | |
| Property Taxes | | 110,708 | | | 110,516 | |
| Depreciation Expense | | 75,264 | | | 27,528 | |
| Total Revenue Requirement | | 338,039 | | | 276,942 | |
| Total Revenue Requirement Impact | | 614,982 | | | | |
| Annual Contract Cost | | 1,020,000 | | | 365,400 | |
| Total Contract Costs with Affiliate | | 1,385,400 | | | | |
| Adjustment | **$** | **(770,418)** | | | | |
| Adjustment by Facility | $ | (681,961) | | $ | (88,458) | |

Notes:

A. Information for Brehm and Kanold was not available by facility prior to Jul 02
These amounts are six month ended 12/31/02 times 2

B. Source: 'Data Request No. KCC Staff DR 442

Kansas Gas Service, A Division of Oneok, Inc.
Analysis of COGR Overcollection
Staff Workpaper to Calculate COGR Reduction

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The information contained in this Exhibit has been deemed Confidential by KGS

Kansas Gas Service, A Division of Oneok, Inc.
Storage Analysis: Brehm and Yaggy Pre and Post Incident
Staff COGR Refund Workpaper

| | Injections | | Withdrawals | |
|---|---|---|---|---|
| **2000** | Brehm | Yaggy | Brehm | Yaggy |
| January | - | 274,041 | 439,973 | 1,217,156 |
| February | - | 574,266 | 331,549 | 641,571 |
| March | - | 579,417 | 194,831 | 486,930 |
| April | 36,820 | 483,218 | 27,701 | 338,885 |
| May | 321,662 | 689,787 | - | 240,188 |
| June | 64,048 | 195,912 | - | 368,539 |
| July | 378,033 | 1,077,111 | - | 162,536 |
| August | 139,533 | 177,053 | - | 1,015,017 |
| September | 353,367 | 1,050,581 | - | 132,090 |
| October | 335,168 | 419,550 | 17,329 | 353,046 |
| November | 90,009 | 607,656 | 209,532 | 972,538 |
| December | - | 175,418 | 792,637 | 1,896,385 |
| **2001** | | | | |
| January | 131,609 | 1,241,218 | 377,276 | 425,023 |
| Pre Yaggy (Excludes January 2001) | 1,718,640 | 6,304,010 | 2,013,552 | 7,824,881 |
| Monthly Avg. | 143,220 | 525,334 | 167,796 | 652,073 |
| Annualized | 1,718,640 | 6,304,010 | 2,013,552 | 7,824,881 |
| February | 36,239 | | 288,828 | 683,947 |
| March | 326,456 | | 115,794 | 278,773 |
| April | 399,577 | | 55,713 | 4,468 |
| May | 323,585 | | 41,024 | |
| June | 143,251 | | 128,335 | |
| July | 115,732 | | 121,488 | |
| August | 155,548 | | 16,475 | |
| September | 330,078 | | - | |
| October | 30,183 | | 547,418 | |
| November | 116,282 | | 211,563 | 38,334 |
| December | 153,679 | | 136,609 | |
| **2002** | | | | |
| January | 58,409 | | 332,956 | |
| February | 122,883 | | 214,740 | |
| March | 159,965 | | 217,548 | |
| April | 143,429 | | 126,129 | |
| May | 10,905 | | 161,436 | |
| June | 324,890 | | 27,080 | |
| July | 269,947 | | - | |
| August | 315,642 | | - | |
| September | 25,257 | | - | |
| October | 17,784 | | - | |
| November | 240,103 | | 63,121 | |
| December | 4,674 | | 378,462 | |
| **2003** | | | | |
| January | - | | 501,451 | |
| February | 26,276 | | 302,216 | |
| March | 332,717 | | 151,471 | |
| Post Yaggy | 4,183,491 | | 4,139,857 | 1,005,522 |
| Monthly Avg. | 160,904 | | 159,225 | 38,674 |
| Annualized | 1,930,842 | | 1,910,703 | 464,087 |

**Reduction in Withdrawals**

| | | | | |
|---|---|---|---|---|
| Injections/Withdrawals comparison | | | | |
| Pre Yaggy | 8,022,650 | | 9,838,433 | |
| Post Yaggy | 1,930,842 | | | |

Kansas Gas Service, A Division of Oneok, Inc.
Storage Analysis: Brehm and Yaggy Pre and Post Incident
Staff COGR Refund Workpaper

| | |
|---|---|
| Reduction in Injections | 75.93% |

The information contained in the remainder of this Exhibit has been deemed Confidential by KGS.

Docket No. KGSG-602-RTS
Exhibit DND-11

KANSAS GAS SERVICE COMPANY
CALCULATION OF LDC PAYMENT TO MCMC
Based on KCC Docket No. 191,839-U
KCC Staff Data Request #57

The information contained in this Exhibit has been deemed Confidential by KGS

**Kansas Corporation Commission**
Docket Number 03-KGSG-602-RTS
Information Request

Data Request: KCC 214::LDC Payment
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: Apr 18, 2003
Date Information Needed: Apr 28, 2003
Requested By: Dittemore, David



| Please Provide the Following: |
|---|
| Please identify any changes in the LDC payment from the initial amount of $1.3M/month established in the 1995 proceeding, including the date and amount of such change. |

The only change to the LDC payment from the initial amount established in 1995 was the reduction of $60,597.17 per month or $767,166 annually. This reduction was a result of the MCMC's inability to provide the level of storage service defined in the Gas Transportation and Storage Agreement because of the "Yaggy incident". The reduced payment level began in May 2001 and continued until the MCMC facilities were transferred to Kansas Gas Service effective July 1, 2002.

Prepared by: R. H. Tangeman

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Larry Miller

Date: 4/28/03

Docket No. KGSG-602-RTS
Exhibit No. DND-13

# Kansas Corporation Commission

Docket Number 03-KGSG-602-RTS

## Information Request

Data Request: KCC 159::MCMC Storage
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: Apr 09, 2003
Date Information Needed: Apr 18, 2003
Requested By: Dittemore, David



Please Provide the Following:

Provide a comprehensive discussion whether MCMC has an ongoing responsibility to compensate KGS for 'displaced storage' subsequent to the 'Yaggy incident'. Displaced storage refers to the storage capacity no longer available as a result of the 'Yaggy incident'. Please refer to specific sections in the Gas Storage Agreement and/or the Operating Agreement in support of this conclusion.

The responsibility for the MCMC to provide storage service to Kansas Gas Service initially came from the contractual obligations contained in the Gas Transportation and Storage Agreement signed by MCMC and Kansas Gas Service's predecessor at the time of the start up of the MCMC. Under that agreement, Kansas Gas Service was entitled to 2.1 Bcf of storage capacity and 85,000 MMBtu per day of withdrawal capacity. In return for the transmission and storage capacity identified in the Agreement, a fixed monthly fee was paid to MCMC. In early 2001, the Yaggy storage field had service restricted and as a result the MCMC could not meet its contractual obligations. For the contract year beginning April 1, 2001 Kansas Gas Service replaced the storage service that MCMC was unable to deliver by increasing the amount of Deferred Delivery Service (DDS) obtained. The cost of the additional DDS was determined to be the cost to replace the lost storage capability of MCMC and that amount was deducted from the monthly payments to the MCMC. This cost deduction continued until the Gas Transportation and Storage Agreement was terminated at the time the MCMC facilities were returned to Kansas Gas Service. MCMC's current obligations to provide storage service to Kansas Gas Service are related to the service agreements between MCMC and Kansas Gas Service for storage service from the Brehm storage field and Kanold storage field.

Prepared by: R. H. Tangeman

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Larry Weller

Date: 4/17/03

Docket No. KGSG-602-RTS
Exhibit No. DND-14
**CONFIDENTIAL**

Kansas Corporation Commission
Docket Number 03-KGSG-602-RTS
Information Request

CONFIDENTIAL

Data Request: KCC 394::Yaggy
Company Name: Kansas Gas Service, a Division of ONEOK, Inc.
Request Date: May 03, 2003
Date Information Needed: May 12, 2003
Requested By: Dittemore, David



Please Provide the Following:

A. Absent restoration costs were withdrawals from Yaggy possible after the incident? If so, please describe the ability of KGS to withdraw gas from Yaggy.

B. Given the detrimental impact to Yaggy, what was the justification for continuing to make any payments to MCMC related to the portions of the LDC payment related to Yaggy Storage?

C. Did MCMC (including Oneok) own any insurance policy providing 'lost profit' reimbursement to MCMC for incidents such as the Yaggy explosion? Did MCMC have insurance policies covering the negative impacts on MCMC commercial operation due to incidents such as the Yaggy explosion? If so, please quantify the reimbursement related to MCMC's diminished commercial capability.

The information contained in this Exhibit has been deemed Confidential by KGS

**Kansas Corporation Commission**
Docket Number 03-KGSG-602-RTS
Information Request

Data Request: 4::Cost Allocation Manuals
to Kansas Gas Service Company
Feb 03, 2003



| Please Provide Staff with Following: |
| --- |
| The most recent Accounting Cost Allocation manual. |

See the attached ONEOK Corporate Overhead Allocations Policy and Procedure Manual revised August 2002.



**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Diana Osborn

Date: 2/3/03

ONEOK

# *CORPORATE OVERHEAD ALLOCATIONS*

# *POLICY AND PROCEDURE MANUAL*

**REVISED AUGUST 2002**

## Introduction

The purpose of the ONEOK, Inc. Corporate Overhead Allocations Policy and Procedure Manual is to provide documentation for current practices used by ONEOK, Inc. for allocation of corporate overhead and administrative costs to the ONEOK, Inc. subsidiaries and related accounting policies and procedures. Administrative costs and overheads that are incurred for the direct benefit of one specific subsidiary, known as Direct Costs were not covered since the objective and scope of this manual pertains to general charges and overheads that cannot be feasibly or easily direct charged.

The following types of corporate overhead expenses and allocation methodologies of ONEOK, Inc. and subsidiaries will be covered in this manual.

## Policy Statement

In today's business climate of mergers, restructuring and deregulation where all the rules may change, it is imperative and critical for corporations to continuously analyze costs and the methodologies used to allocate those costs to their appropriate business units.

ONEOK, Inc. strives to maintain reasonable, justifiable, fair, and equitable methods of costs assignments, so that each ONEOK, Inc. subsidiary receives its proportionate share of overhead costs and related expenses.

In addition to periodic reviews of existing allocation methodologies, calculations are updated at least once a year and at the beginning of each new fiscal year. Percentages are also amended periodically depending on corporate structure, to reflect acquisitions and/or divestments, unbundling, deregulation projects or corporate restructuring. Furthermore, it is the responsibility of each employee and their supervisor when preparing, approving, and processing any accounting document (invoices, amortizations, journal entries, etc.) for disbursement, to properly assign them to the appropriate jurisdiction(s), department(s), business unit(s), and FERC (Federal Energy Regulatory Commission) account classification, etc. which incurs the cost or receives the benefit.

## Three-Step Allocation Process

The actual application of fully distributed cost allocations at ONEOK occurs through the commonly identified "three-step" allocation method. The "three-step" allocation process begins with the premise that to the maximum extent practical, costs specifically attributed to a business unit are directly charged to that business unit. Secondly, indirect costs which are significant in amount, but which cannot be directly charged are allocated to business units on the basis of a casual relationship. The indirect costs are accumulated into logical groups or homogeneous pools and are allocated on the basis of a casual relationship, which can be a measure of activity level, output level, or resource consumption. In the third step, any remaining costs, which cannot be associated with a specific, identifiable, casual relationship are pooled as corporate overhead and allocated to business units via the Distrigas Mass Allocation.

## Distrigas Methodology

### Background

*ONEOK, Inc. has used the Distrigas formula to allocate corporate income/expense since 1996. The Oklahoma Corporation Commission approved the use of Distrigas in PUD No. 9440477, Order No 393222 for corporate allocations received by ONG.*

### Calculation

*The Distrigas method is a financial cost driver, which uses a three-factor formula comprised of the average of gross plant and investment, net operating revenues, and labor expenses (excluding contract labor). A percentage of the consolidated total is calculated for each company for each of the three allocation factors. In cases where the percentage for one of the three components indicates a negative allocation a factor of zero is used. Refer to Exhibit A.*

### Monitoring

*ONEOK, Inc. requires the Distrigas calculation to be updated at the beginning of each fiscal year. Distrigas percentages may also require amendments during the fiscal year when corporate acquisitions or restructuring, or other factors significantly affect the factors used in the formula.*

## Description of Services and Cost Assignment/Allocation Methodologies

ONEOK, Inc. management costs consist of salaries and expenses of the senior management of the corporation, board of director fees and expenses, fees charged by the corporation's independent external auditor, expenses for the investor relations function, corporate legal expenses, and other related charges. Administrative and General Expenses include compensation (salaries, bonuses) other than senior management, and other general expenses applicable to the operations of the corporation. These charges are allocated by applying the appropriate Distrigas percentage for each subsidiary to the monthly total of ONEOK, Inc. Management costs and Administrative and General Expenses. Each subsidiary derives benefit from the ONEOK, Inc. corporate management staff and the shared services provided by the corporate departments and sections.

This schedule is representative of the services provided by ONEOK, Inc. to the Operating Companies and the cost assignment/allocation methodologies that are used.

**Information Technology:** includes administering system development, technical support, and network configuration and services.

- *IT direct charges all costs to the extent possible.*
- *Direct charge include but not limited to the following items:*
  - *System development and support for production, marketing, transportation, gathering, and processing applications.*
  - *System development and support for ONG CSS system.*
  - *Communication equipment including pagers radios and phones.*
- *For all other charges, which benefit ONEOK as a whole, the Distrigas allocation method is used. Refer to Exhibit A.*

**Corporate Communication:** includes investor relations, media relations, advertising and internal communications.

- *Corporate Communications direct charges all cost to the extent possible.*
- *Direct charge include but not limited to the following items:*
  - *Advertising including billboards, mail inserts and trade shows exhibits.*
- *For all other charges, which benefit ONEOK as a whole, the Distrigas allocation method is used. Refer to Exhibit A.*

**Human Resources:** includes payroll, benefits, EEO, training/development, disability management and employee services.

- *Human Resources direct charges all cost to the extent possible.*
- *The following costs are based on the following allocation basis:*
  - *Medical and dental benefits, and administrative fees are separated between non-and bargaining employees. The benefits are then allocated based on employee count. Refer to Exhibit B.*
  - *AD&D, LTD, life insurance and pension benefits are separated between non- and bargaining employees. The benefits are then allocated based on employee payroll excluding overtime. Refer to Exhibit B and C.*
  - *Other post retirement benefits are allocated based on actuarial report between ONEOK and KGS. Further allocation for ONEOK is based on employee count with adjustments for employees hired after 12/31/98 or acquired through acquisitions. Refer to Exhibit B.*
  - *Company match on 401K, service awards, training, employee drug testing and assistance is charged to the business unit employee is assigned.*
- *For all other charges, which benefit ONEOK as a whole, the Distrigas allocation method is used. Refer to Exhibit A.*

**Corporate Services:** includes purchasing, fleet management, facilities management, meter shop, safety, environmental management, building services, right-or-way and aviation.

- *Corporate Services direct charges all cost to the extent possible.*
- *The following costs are based on the following allocation basis:*
  - *ONEOK Plaza break room expenses is allocated based on employee count located in the corporate headquarters. Refer to Exhibit D.*
- *For all other charges, which benefit ONEOK as a whole, The Distrigas allocation method is used. Refer to Exhibit A.*

**Accounting:** includes tax, audit services, financial accounting, planning/reporting, treasury, risk control and risk management.

- *Accounting direct charges all cost to the extent possible.*
- *For all other charges, which benefit ONEOK as a whole, The Distrigas allocation method is used. Refer to Exhibit A.*

**General Counsel:** includes legal, claims and insurance.

- *General Counsel direct charges all cost to the extent possible.*
- *The following costs are based on the following allocation basis:*
  - *Insurance premiums for workers comp is based on employee count.*
  - *Insurance premiums for property insurance is based on property valuations submitted by operating companies.*
  - *Insurance premiums for fleet insurance is based on count.*
  - *Premiums for production bond are based on operating income of applicable companies.*
- *For all other charges, which benefit ONEOK as a whole, the Distrigas allocation method is used. Refer to Exhibit A.*

**General Administrative:** includes ONEOK executives, governmental affairs, corporate lobbyist, and general costs not assigned to a specific cost center.

- *General administrative directs charge all cost to the extent possible.*
- *For all other charges, which benefit ONEOK as a whole, the Distrigas allocation method is used. Refer to Exhibit A.*

EXHIBIT A (Revised)

# ONEOK, Inc.

## Calculation of Allocation Ratios Using Distrigas Method For July 2002 - December 2002

Based on 12 Months Ended December 31, 2001

***ALL COMPANIES***

| COMPANY | Company Number | (1) Gross Plant & Investment* | (2) Ratio of Companies | (3) Operating Income** | (4) Ratio of Companies | (5) Labor Expense | (6) Ratio of Companies | (7) (2+4+6)/3 Ratio |
|---|---|---|---|---|---|---|---|---|
| ONG | 21 | $1,024,161,543 | 22.937% | 49,454,150 | 14.465% | $43,351,395 | 32.145% | 23.179% |
| OkTex Pipeline | 38 | $6,710,253 | 0.150% | 760,834 | 0.223% | $54,346 | 0.040% | 0.138% |
| KGS - Kansas Properties | 51 | $1,058,713,027 | 23.712% | 40,404,070 | 11.819% | $38,782,473 | 28.756% | 21.429% |
| KGS - Oklahoma Prop. | 52 | $1,757,971 | 0.039% | 58,384 | 0.017% | $1,807,353 | 1.340% | 0.465% |
| ONEOK Texas Gas Storage | 16 | $59,681,388 | 1.337% | 1,978,275 | 0.579% | $526,325 | 0.390% | 0.769% |
| Sayre Storage Company | 33 | $7,676,113 | 0.172% | (33,389) | 0.000% | $62,418 | 0.046% | 0.073% |
| ONEOK Wes Tex Trasmission, Inc. | 40 | $139,603,676 | 3.127% | 5,809,630 | 1.699% | $3,597,335 | 2.667% | 2.498% |
| Mid Continent Market Center | 43 | $41,862,340 | 0.938% | 5,252,287 | 1.536% | $415,468 | 0.308% | 0.928% |
| ONEOK Gas Storage, LLC | 44 | $93,360,203 | 2.091% | 20,713,268 | 6.059% | $1,367,707 | 1.014% | 3.055% |
| ONEOK Gas Transportation, LLC | 45 | $275,673,566 | 6.174% | 23,668,939 | 6.924% | $2,782,802 | 2.063% | 5.054% |
| ONEOK Palo Duro Pipeline Co. | 46 | $6,719,000 | 0.150% | 816,209 | 0.239% | $3,717 | 0.003% | 0.131% |
| Market Center Gathering, Inc. | 47 | $100,000 | 0.002% | 856 | 0.000% | $0 | 0.000% | 0.001% |
| Mid Continent Transportation, Inc. | 48 | $0 | 0.000% | 0 | 0.000% | $0 | 0.000% | 0.000% |
| ONEOK Producer Services, LLC | 77 | $63,335,453 | 1.419% | 1,396,071 | 0.408% | $295,161 | 0.219% | 0.682% |
| ONEOK NGL Marketing LP | 56 | $244,863 | 0.005% | 16,438,362 | 4.809% | $0 | 0.000% | 1.605% |
| ONEOK Midstream Gas Supply LLC | 57 | $0 | 0.000% | 0 | 0.000% | $0 | 0.000% | 0.000% |
| ONEOK Field Services | 61 | $26,863,062 | 0.602% | 36,425,626 | 10.655% | $24,219,897 | 17.958% | 9.738% |
| ONEOK Field Services Transmission, LL | 64 | $15,208,441 | 0.341% | (343,248) | 0.000% | $0 | 0.000% | 0.114% |
| ONEOK Texas Field Services LP | 65 | $255,375,058 | 5.720% | 454,765 | 0.133% | $5,241,743 | 3.887% | 3.247% |
| ONEOK Bushton Processing Inc. | 66 | $5,746,431 | 0.129% | (11,718,667) | 0.000% | $0 | 0.000% | 0.043% |
| ONEOK Intrastate Gas Supply | 67 | $0 | 0.000% | (98,863) | 0.000% | $0 | 0.000% | 0.000% |
| ONEOK Gas Processing, L.L.C. | 74 | $761,967,991 | 17.066% | 3,509,439 | 1.027% | $0 | 0.000% | 6.031% |
| ONEOK Energy & Trading LP | 09 | $3,978,750 | 0.089% | 72,633,796 | 21.247% | $7,360,643 | 5.458% | 8.931% |
| ONEOK Power Marketing | 70 | $118,192,549 | 2.647% | 3,486,634 | 1.020% | $635,997 | 0.472% | 1.380% |
| ONEOK Resources | 72 | $482,404,809 | 10.804% | 57,938,523 | 16.948% | $3,981,608 | 2.952% | 10.235% |
| ONEOK Leasing | 81 | $4,992,496 | 0.112% | (2,324,943) | 0.000% | $287,466 | 0.213% | 0.108% |
| ONEOK Parking | 82 | $10,600,578 | 0.237% | 658,343 | 0.193% | $93,047 | 0.069% | 0.166% |
| | | $4,464,929,561 | 100.000% | 341,858,461 | 100.000% | $134,866,901 | 100.000% | 100.000% |

* Gross Plant & Investment includes plant and construction work in progress or nonutility property. It does not include gas plant acquisition adjustments.
**Does not include negative totals for calculation of ratios. Operating revenues=Earnings before interest and taxes

Note: Operating income for ONG increased by $34,579,586 for gas purchases moved from revenue to a liability due to OCC.
Operating income for OEMT increased by $6,589,092 which was taken out of revenue due to Enron.

Revision due to Mid Continent Transportation, Inc consolidation into Mid Continent Market Center.
Also, a portion of the transmission assets of Mid Continent Market Center were transferred to Kansas Gas Service and ONEOK Field Services

EXHIBIT A

# ONEOK, Inc.

## Calculation of Allocation Ratios Using Distrigas Method For January 2002 - June 2002

Based on 12 Months Ended December 31, 2001

***ALL COMPANIES***

| COMPANY | Company Number | (1) Gross Plant & Investment* | (2) Ratio of Companies | (3) Operating Income ** | (4) Ratio of Companies | (5) Labor Expense | (6) Ratio of Companies | (7) (2+4+6)/3 Ratio |
|---|---|---|---|---|---|---|---|---|
| ONG | 21 | $1,024,161,543 | 22.937% | 49,454,150 | 14.465% | $43,351,395 | 32.145% | 23.179% |
| OkTex Pipeline | 38 | $6,710,253 | 0.150% | 760,834 | 0.223% | $54,346 | 0.040% | 0.138% |
| KGS - Kansas Properties | 51 | $952,584,718 | 21.335% | 40,404,070 | 11.819% | $38,782,473 | 28.756% | 20.637% |
| KGS - Oklahoma Prop. | 52 | $1,757,971 | 0.039% | 58,384 | 0.017% | $1,807,353 | 1.340% | 0.465% |
| ONEOK Texas Gas Storage | 16 | $59,681,388 | 1.337% | 1,978,275 | 0.579% | $526,325 | 0.390% | 0.769% |
| Sayre Storage Company | 33 | $7,676,113 | 0.172% | (33,389) | 0.000% | $62,418 | 0.046% | 0.073% |
| ONEOK Wes Tex Trasmission, Inc. | 40 | $139,603,676 | 3.127% | 5,809,630 | 1.699% | $3,597,335 | 2.667% | 2.498% |
| Mid Continent Market Center | 43 | $163,349,714 | 3.659% | 3,972,086 | 1.162% | $398,631 | 0.296% | 1.706% |
| ONEOK Gas Storage, LLC | 44 | $93,360,203 | 2.091% | 20,713,268 | 6.059% | $1,367,707 | 1.014% | 3.055% |
| ONEOK Gas Transportation, LLC | 45 | $275,673,566 | 6.174% | 23,668,939 | 6.924% | $2,782,802 | 2.063% | 5.054% |
| ONEOK Palo Duro Pipeline Co. | 46 | $6,719,000 | 0.150% | 816,209 | 0.239% | $3,717 | 0.003% | 0.131% |
| Market Center Gathering, Inc. | 47 | $100,000 | 0.002% | 856 | 0.000% | $0 | 0.000% | 0.001% |
| Mid Continent Transportation, Inc. | 48 | $3,295,472 | 0.074% | 1,280,201 | 0.374% | $16,837 | 0.012% | 0.153% |
| ONEOK Producer Services, LLC | 77 | $63,335,453 | 1.419% | 1,396,071 | 0.408% | $295,161 | 0.219% | 0.682% |
| ONEOK NGL Marketing LP | 56 | $244,863 | 0.005% | 16,438,362 | 4.809% | $0 | 0.000% | 1.605% |
| ONEOK Midstream Gas Supply LLC | 57 | $0 | 0.000% | 0 | 0.000% | $0 | 0.000% | 0.000% |
| ONEOK Field Services | 61 | $8,208,525 | 0.184% | 36,425,626 | 10.655% | $24,219,897 | 17.958% | 9.599% |
| ONEOK Field Services Transmission, LL | 64 | $15,208,441 | 0.341% | (343,248) | 0.000% | $0 | 0.000% | 0.114% |
| ONEOK Texas Field Services LP | 65 | $255,375,058 | 5.720% | 454,765 | 0.133% | $5,241,743 | 3.887% | 3.247% |
| ONEOK Bushton Processing Inc. | 66 | $5,746,431 | 0.129% | (11,718,667) | 0.000% | $0 | 0.000% | 0.043% |
| ONEOK Intrastate Gas Supply | 67 | $0 | 0.000% | (98,863) | 0.000% | $0 | 0.000% | 0.000% |
| ONEOK Gas Processing, L.L.C. | 74 | $761,967,991 | 17.066% | 3,509,439 | 1.027% | $0 | 0.000% | 6.031% |
| ONEOK Energy & Trading LP | 09 | $3,978,750 | 0.089% | 72,633,796 | 21.247% | $7,360,643 | 5.458% | 8.931% |
| ONEOK Power Marketing | 70 | $118,192,549 | 2.647% | 3,486,634 | 1.020% | $635,997 | 0.472% | 1.380% |
| ONEOK Resources | 72 | $482,404,809 | 10.804% | 57,938,523 | 16.948% | $3,981,608 | 2.952% | 10.235% |
| ONEOK Leasing | 81 | $4,992,496 | 0.112% | (2,324,943) | 0.000% | $287,466 | 0.213% | 0.108% |
| ONEOK Parking | 82 | $10,600,578 | 0.237% | 658,343 | 0.193% | $93,047 | 0.069% | 0.166% |
| | | $4,464,929,561 | 100.000% | 341,858,461 | 100.000% | $134,866,901 | 100.000% | 100.000% |

* Gross Plant & Investment includes plant and construction work in progress or nonutility property. It does not include gas plant acquisition adjustments.
**Does not include negative totals for calculation of ratios. Operating revenues=Earnings before interest and taxes

Note: Operating income for ONG increased by $34,579,586 for gas purchases moved from revenue to a liability due to OCC.
Operating income for OEMT increased by $6,589,092 which was taken out of revenue due to Enron.

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**ONEOK, Inc.**
**Allocation of Employee L .s**
**2002 Calendar Year**

| efits | Total | ONG 021 | KGS (KS) 051 | KGS (OK) 052 | ORC 072 | Energy** 061 | OEMT 009 | OPM 070 | Leasing 081 | Parking 082 | ONEOK 010 | ONECU* | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| on | | | | | | | | | | | | | |
| Health | [redacted] | | 5,651,502 | 298,161 | | | | | | | | | 5,949,663 |
| Dental | [redacted] | | 243,348 | 12,839 | | | | | | | | | 256,187 |
| Health Administrative | [redacted] | | 493,635 | 26,043 | | | | | | | | | 519,678 |
| Dental Administrative | [redacted] | | 35,679 | 1,882 | | | | | | | | | 37,561 |
| Active Employees | 878 | | [redacted] | [redacted] | | | | | | | | | 878 |
| AD&D | [redacted] | | 7,789 | 426 | | | | | | | | | 8,215 |
| LTD | [redacted] | | 160,293 | 8,757 | | | | | | | | | 169,050 |
| Group Life | [redacted] | | 211,016 | 11,529 | | | | | | | | | 222,545 |
| Payroll $ w/o overtime (1) | 38,930,170 | | [redacted] | [redacted] | | | | | | | | | 38,930,170 |
| -union | | | | | | | | | | | | | |
| Health | [redacted] | 6,140,635 | 1,517,854 | 59,330 | 341,146 | 3,802,052 | 509,247 | 44,497 | 39,553 | 14,832 | 1,695,844 | 0 | 14,164,991 |
| Dental | [redacted] | 538,932 | 133,214 | 5,207 | 29,941 | 333,686 | 44,694 | 3,905 | 3,471 | 1,302 | 148,835 | 0 | 1,243,188 |
| Health Administrative | [redacted] | 417,036 | 103,084 | 4,029 | 23,169 | 258,213 | 34,585 | 3,022 | 2,686 | 1,007 | 115,172 | 0 | 962,003 |
| Dental Administrative | [redacted] | 54,169 | 13,390 | 523 | 3,009 | 33,540 | 4,492 | 393 | 349 | 131 | 14,960 | 0 | 124,956 |
| Flex Plan Administrative | [redacted] | 27,745 | 6,858 | 268 | 1,541 | 17,178 | 2,301 | 201 | 179 | 67 | 7,662 | 0 | 64,000 |
| Active Employees | 2,865 | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | 2,865 |
| AD&D | [redacted] | 11,697 | 4,099 | 157 | 985 | 9,433 | 1,759 | 242 | 82 | 19 | 4,712 | 0 | 33,184 |
| Group Life | [redacted] | 171,777 | 60,192 | 2,312 | 14,463 | 138,531 | 25,830 | 3,548 | 1,204 | 276 | 69,198 | 0 | 487,332 |
| LTD | [redacted] | 296,068 | 103,745 | 3,984 | 24,928 | 238,766 | 44,519 | 6,115 | 2,076 | 476 | 119,266 | 0 | 839,943 |
| Payroll $ w/o overtime (2) | 139,921,604 | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | 139,921,604 |
| solidated | | | | | | | | | | | | | |
| LTD Administrative | [redacted] | 597 | 549 | 27 | 33 | 370 | 50 | 4 | 4 | 1 | 165 | 0 | 1,800 |
| Medical administrative fees/Mercer | [redacted] | 29,150 | 26,780 | 1,314 | 1,619 | 18,049 | 2,417 | 211 | 188 | 70 | 8,050 | 0 | 87,850 |
| Form 5500 Preparation | [redacted] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retirement Plan Administrative | [redacted] | 14,932 | 13,718 | 673 | 830 | 9,245 | 1,238 | 108 | 96 | 36 | 4,124 | 0 | 45,000 |
| Total Active Employees | 3,743 | 1,242 | 1,141 | 56 | 69 | 769 | 103 | 9 | 8 | 3 | 343 | 0 | 3,743 |
| otal | 25,217,146 | 7,702,738 | 8,786,745 | 437,462 | 441,665 | 4,859,063 | 671,133 | 62,247 | 49,888 | 18,218 | 2,187,988 | 0 | 25,217,146 |
| **ement Costs** | | | | | | | | | | | | | |
| n | [redacted] | 0 | (1,573,057) | (85,943) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,659,000) |
| Payroll $ w/o overtime | 38,930,170 | 0 | 36,913,438 | 2,016,732 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 38,930,170 |
| nion | [redacted] | (7,959,471) | (2,789,077) | (107,107) | (670,166) | (6,418,977) | (1,196,847) | (164,401) | (55,803) | (12,799) | (3,206,353) | 0 | (22,581,000) |
| Payroll $ w/o overtime | 139,921,604 | 49,320,311 | 17,282,320 | 663,679 | 4,152,636 | 39,774,745 | 7,416,180 | 1,018,701 | 345,780 | 79,308 | 19,867,944 | 0 | 139,921,604 |
| **3 (for all companies excluding KGS)** | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | 10,071,000 |
| See attached worksheet | | | | | | | | | | | | | |
| **3 - Pay/Go** | [redacted] | | 3,486,865 | 171,135 | | | | | | | | | 3,658,000 |
| Active Employees - KGS | 1,197 | | 1,141 | 56 | | | | | | | | | 1,197 |
| **Benefits** | 14,706,146 | 6,317,491 | 7,911,476 | 415,547 | 15,770 | 175,079 | (268,905) | (63,951) | 28,188 | 18,153 | 152,598 | 4,701 | 14,706,146 |

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EXHIBIT C

**ONEOK, Inc.**
**Pension (Retirement**
**2002 Calendar Year**

| r Mercer Report-CV | Total | OTHER | KGS (KS) 051 | KGS (OK) 052 | Total |
|---|---|---|---|---|---|
| **tirement Costs** | | | | | |
| ion | [redacted] | 0 | (1,573,057) | (85,943) | (1,659,000) |
| Payroll $ w/o overtime | 38,930,170 | 0 | 36,913,438 | 2,016,732 | 38,930,170 |
| nunion | [redacted] | (19,684,817) | (2,789,077) | (107,107) | (22,581,001) |
| Payroll $ w/o overtime | 139,921,604 | 121,975,605 | 17,282,320 | 663,679 | 139,921,604 |
| Total costs | | | (4,362,134) | (193,050) | |
| **Monthly accrual** | | | (363,511) | (16,088) | |

| | | | ONG 021 | ORC 072 | Energy** 061 | OEMT 009 | OPM 070 | Leasing 081 | Parking 082 | ONEOK 010 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EOK | | | | | | | | | | | |
| Non Union | | | (7,959,471) | (670,166) | (6,418,977) | (1,196,847) | (164,401) | (55,803) | (12,799) | (3,206,353) | (19,684,817) |
| Based on payroll dollars of: | | | 49,320,311 | 4,152,636 | 39,774,745 | 7,416,180 | 1,018,701 | 345,780 | 79,308 | 19,867,944 | 121,975,605 |
| arate Service employees from non-Service: | Employee $ Payroll $ | | | | | | | | | | |
| Non-Service companies | | | | | | (1,196,847) | 0 | | | | (1,196,847) |
| Non-Service employees - ONEOK | 2,776,992/ 19,867,944 | 0.139772 | | | | | | | | (448,160) | (448,160) |
| Non-Service employees - ONG | 174,000/ 49,320,311 | 0.003528 | (28,081) | | | | | | | | (28,081) |
| Non-Service employees - Energy | 317,616/ 39,774,745 | 0.007985 | | | (51,256) | | | | | | (51,256) |
| Non-Service employees - Texas Res. | 72,096/ 39,774,745 | 0.001813 | | | (11,638) | | | | | | (11,638) |
| Service Employees | | | (7,931,390) | (670,166) | (6,356,083) | 0 | (164,401) | (55,803) | (12,799) | (2,758,193) | (17,948,835) |
| | | | (7,959,471) | (670,166) | (6,418,977) | (1,196,847) | (164,401) | (55,803) | (12,799) | (3,206,353) | (19,684,817) |
| **Monthly accrual - non Service employees** | | | (2,340) | 0 | (5,241) | (99,737) | 0 | 0 | 0 | (37,347) | (144,665) |
| **Monthly accrual/Allocation - Service employees** | | | (660,949) | (55,847) | (529,673) | 0 | (13,700) | (4,650) | (1,067) | (229,849) | (1,495,735) |

* Includes Texas Resources

e:
As long as the pension is a credit the markup will not be credited.

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**EXHIBIT D**

EMPLOYEES AT ONEOK PLAZA BY COMPANY 12/31/01

| | |
|---|---|
| 9 | OKLAHOMA NATURAL GAS CO |
| 66 | ONEOK ENERGY MKTG AND TRADING CO |
| 17 | ONEOK EXECUTIVE OFFICERS |
| 149 | ONEOK FIELD SERVICES |
| 82 | ONEOK GAS TRANSPORTATION |
| 223 | ONEOK, INC. |
| 18 | ONEOK LEASING CO |
| 7 | ONEOK POWER MKTG |
| 58 | ONEOK RESOURCES |
| 1 | ONEOK WESTEX |
| 630 | TOTAL |

TENANTS AT ONEOK PLAZA TO BE BILLED BREAK ROOM SUPPLIES

| | |
|---|---|
| 4 | COMMUNICATION FEDERAL CREDIT UNION |

BREAK ROOM ALLOCATION

| # OF EMPL | COMPANY | PERCENTAGE |
|---|---|---|
| 9 | OKLAHOMA NATURAL GAS CO | 1.4% |
| 66 | ONEOK ENERGY MKTG & TRADING | 10.4% |
| 17 | ONEOK EXECUTIVE OFFICERS | 2.7% |
| 149 | ONEOK FIELD SERVICES | 23.5% |
| 82 | ONEOK GAS TRANSPORTATION | 12.9% |
| 223 | ONEOK, INC. | 35.2% |
| 18 | ONEOK LEASING CO. | 2.8% |
| 7 | ONEOK POWER MKTG | 1.1% |
| 58 | ONEOK RESOURCES | 9.2% |
| 1 | ONEOK WESTEX | .2% |
| 4 | COMMUNICATION FEDERAL CREDIT UNION | .6% |
| 634 | TOTAL | 100% |

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Incentive Compensation
Staff Adjustment Nos. 28 and 29 to the Income Statement

| | Source | Corrected Info from KGS | |
|---|---|---|---|
| **I.** | | | |
| S/T Incentives & President Awards Account 920700 - OneOk Co. 10 | | | |
| Per Books | DR 303 | $ 3,358,254 | Per Revised KGS worksheet |
| Less: KGS Pro-Forma Adjustment | DR 303 | $ (1,151,804) | Per Revised KGS worksheet |
| Pro-Forma Short Term Incentive Cost - Corrected | | $ 2,206,450 | New Pro-forma Per KGS |
| Pro-Forma ST Incentive Costs in the Rate Case | | $ 2,050,313 | Per books of $3.3 less $1.3M proforma rate case adjustment |
| Increase in Pro-Forma DistriGas Costs Per Staff (Before Adjustment) | | $ 156,137 | |
| **II.** | | | |
| President's Award | | $ 494,450 | |
| Short Term Incentive Plan | | $ 1,712,000 | |
| Pro-Forma Short Term Incentive Cost - Corrected | | $ 2,206,450 | |
| LT Incentive Costs Account 9200710 | | $ 910,443 | |
| Total Company 10 Incentive Costs | | $ 3,116,893 | |
| **III.** | | | |
| Adjustment Summary | | | |
| The following items should be assigned to Business Units based upon the causal allocator of net income | | | |
| Short Term Incentive Plan | | $ 1,712,000 | |
| Long Term Incentives | | $ 910,443 | |
| Increase in DistriGas due to KGS Correction | | $ (156,137) | |
| Reduction in DistriGas Allocation Pool | | $ 2,466,306 | Excludes President Awards |
| Composite DistriGas % used in Application | Calculated based upon information in DR 306, page 1/5 item 2 | 21.43% | |
| Decrease to reflect the impact of eliminating costs from DistriGas | | $ 528,505 | |
| **IV.** | | | |
| Impact from Using Causal Allocator | | | |
| Total Incentive Costs to be Allocated on Causal Basis | | $ 2,622,443 | |
| Net Income Allocator | DR 92 | 7.655% | |
| KGS Proforma Costs based upon causal allocator | | $ 200,748 | ST Incentives excluding Pres., plus LT Incent. Does not include impact of increase in pro-forma costs due to KGS correction |
| **V. OH Adjustment 1** | | | |
| Net Decrease in KGS A&G Costs Resulting from Causal Allocation (Section III - IV) | | $ (327,757) | See Calculation Below |
| **VI. OH Adjustment 2** | | | |
| Incentive Costs Direct Assigned to KGS | Source: DR 224 | $ 982,434 | |
| Pro-Forma KGS Share of OneOk Incentives | Section IV | $ 200,748 | |
| Total Incentive Costs remaining in Rate Case subject to financial criteria | | $ 1,183,182 | |
| 50% assigned to OneOk Shareholders | | $ (591,591) | |

| Pro-Forma Operating Income % | |
|---|---|
| KGS Operating Income Per DR 92 - DistriGas Formula | $ 35,278,943 |
| Total OneOk Operating Income | $ 460,838,842 |
| | 7.655% |

Kansas Gas Service A Division of ONEOK Inc.
Analysis of KPMG Invoices
Staff Adjustment No. 30 to the Income Statement

The information contained in this Exhibit has been deemed Confidential by KGS

Data Request # KCC 344
Attachment 3
Page 6 of 12

CONFIDENTIAL

Docket No. KGSG-602-RTS
Exhibit DND-18

The information contained in this Exhibit has been deemed Confidential by KGS

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Corporate Overheads
Staff Adjustment No. 31 to the Income Statement

| Month | Gross Charges Subject to DistriGas Allocation | Allocation % | Allocated Amount | Source |
|---|---|---|---|---|
| September | $ 3,769,566 | 21.57% | $ 813,095 | Supplemental DR 134 |
| October | $ 3,956,742 | 21.57% | $ 853,469 | |
| November | $ 3,057,638 | 21.57% | $ 659,533 | |
| December | $ 4,631,402 | 21.57% | $ 998,993 | |
| January | $ 3,393,874 | 20.64% | $ 700,394 | |
| February | $ 3,760,115 | 20.64% | $ 775,975 | |
| March | $ 6,579,063 | 20.64% | $ 1,357,721 | |
| April | $ 3,523,547 | 20.64% | $ 727,154 | |
| May | $ 4,125,837 | 20.64% | $ 851,449 | |
| June | $ 3,386,269 | 20.64% | $ 698,824 | |
| July | $ 4,437,789 | 21.43% | $ 950,974 | |
| August | $ 891,079 | 21.43% | $ 190,949 | |
| Total Per Book | $ 45,512,921 | 21.05% | **$ 9,578,531** | |
| KGS Proposed Adjustments (net KGS Impact) | $ (2,373,580) | 21.43% | $ (508,634) | DR 306 |
| KGS as Adjusted Corporate Overhead Costs | $ 43,139,341 | | $ 9,069,897 | |

**Staff Proposed Adjustments**

| | | | |
|---|---|---|---|
| Re-Allocation of Incentive Costs | $ (2,466,306) | | |
| KPMG Audit Costs | $ (881,000) | | |
| Reduction in Maintenance Costs | $ (610,356) | | |
| Elimination of Markup Costs | $ (152,337) | | |
| Elimination of Aircraft O&M | $ (415,529) | | |
| Net Corporate Cost Subject to Allocation | **$ 38,613,813** | | |
| | **KGS** | **Staff** | |
| Allocation Percentage | 21.429% | 12.32% | |
| Overhead Allocated to KGS | $ 8,274,547 | $ 4,757,222 | |
| Adjustment | $\boxed{\$ \ (3,517,325)}$ | | |

Kansas Gas Service, a Division of ONEOK Inc.
Oracle Adjustment - To Reflect Elimination of a portion of Oracle Costs, not used nor useful
Staff Adjustment No. 8 to Rate Base

| Total Costs (a) | Gross Cost (b) | KGS Allocation C | Existing Pro-Forma (d) | Staff Adjusted - Net of Refund * (e) | | Less 12.5% Disallowance (f) | Net Costs to Allocate (g) | KGS Allocation (h) | Staff Pro-Forma (i) | Adjustment (j) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 21.429% | | | | | | 21.429% | | (d-j) |
| Oracle Asset | 20,642,789.04 | | $ 4,423,543.26 | $ 21,136,739 | * | $ 2,642,092 | $ 18,494,647 | | $ 3,963,218 | **$ 460,325** |
| Acc. Dep. | 1,376,185.75 | | $ 294,902.84 | $ 1,376,186 | | $ 172,023 | $ 1,204,163 | | $ 258,040 | **$ 36,863** |
| Net Plant | 19,266,603.29 | | $ 4,128,640.42 | | | | | | $ 3,705,178 | **$ 423,463** |
| ADIT | (2,005,225) | | $ (429,699.67) | $ (2,005,225) | | $ (250,653) | $ (1,754,572) | | $ (375,987) | **$ (53,712)** |
| Depreciation Expense | 2,064,279.48 | | $ 442,354.45 | $ 2,064,279 | | $ 258,035 | $ 1,806,245 | | $ 387,060 | **$ 55,294** |
| Ad Valorem -Immaterial | | | | | | | | | | |

Kansas Gas Service, a Division of ONEOK Inc.
Calculation of Corporate Aircraft Adjustment
Staff Adjustment No. 33 to the Income Statement

## I. KGS Pro-Forma Costs @ Imputed Commercial Rates

| Pro-Forma Cost Calculation | Passenger Count | Imputed Commercial Rate | Gross Cost | Allocation % | KGS Cost |
|---|---|---|---|---|---|
| KGS Direct Charges | 227 | $750 | $170,250 | 100% | $170,250 |
| OneOk Corporate | 81 | $750 | $60,750 | 21.429% | $13,018 |
| Total KGS Costs | | | **Pro-Forma Cost Increase** | | **$183,268** |

## II. KGS Aircraft Rev. Requirement Elements

| **Items to Remove from ONEOK Overhead Allocation** | Amount | | |
|---|---|---|---|
| Airplane Asset | $4,932,778 | 21.429% | $1,057,045 |
| Acc. Depreciation | 1,531,363.17 | 21.429% | $328,156 |
| Net Plant | 3,401,415.21 | | $728,889 |
| O&M Cost Allocation | 415,529 | 21.429% | $89,044 |
| Depreciation Expense | 387,716 | 21.429% | 83,084 |

| Net A&G Impact | |
|---|---|
| KCC Staff Pro-Forma Costs | $183,268 |
| Less: Allocated O&M | $89,044 |
| Increase in A&G allocated costs | $94,224 |

Kansas Gas Service, A Division of Oneok, Inc.
Adjusting Corporate Allocated Plant by New Allocation Factor
Staff Adjustment No. 10 to Rate Base

Applicant Corporate Allocated Corporate Plant

| Line No. | Asset Description | Original Asset Cost [1] | OKE DistriGas % [1] | KGS Allocated [1] |
|---|---|---|---|---|
| 1 | Office Furniture & Fixtures | 333,983 | 21.429% | 71,569 |
| 2 | Data Processing Equipment | 15,910,523 | 21.429% | 3,409,466 |
| 3 | Oracle Equipment | 7,000,000 | 21.429% | 1,500,030 |
| 4 | Audio Visual Equipment | 162,500 | 21.429% | 34,822 |
| 5 | Oracle Software | 20,642,789 | 21.429% | 4,423,543 |
| | Less: KCC Adjustment | (2,642,092) | 21.429% | (566,174) |
| 6 | Purchased Software | 2,820,195 | 21.429% | 604,340 |
| 7 | Aircraft | 4,932,778 | 21.429% | 1,057,045 |
| | Less: KCC Adjustment | (4,932,778) | 21.429% | (1,057,045) |
| 8 | Leasehold Improvements | 3,201,593 | 21.429% | 686,069 |
| 9 | Total | 47,429,490 | | 10,163,665 |

Applicant Corporate Allocated Accumulated Depreciation

| Line No. | Asset Description | Original Asset Cost | OKE DistriGas % | KGS Allocated |
|---|---|---|---|---|
| 10 | Office Furniture & Fixtures | 7,148 | 21.429% | 1,532 |
| 11 | Data Processing Equipment | 2,947,216 | 21.429% | 631,559 |
| 12 | Oracle Equipment | 1,555,439 | 21.429% | 333,315 |
| 13 | Audio Visual Equipment | 10,238 | 21.429% | 2,194 |
| 14 | Oracle Software | 1,376,186 | 21.429% | 294,903 |
| | Less: KCC Adjustment | (172,023) | 21.429% | (36,863) |
| 15 | Purchased Software | 236,824 | 21.429% | 50,749 |
| 16 | Aircraft | 1,531,363 | 21.429% | 328,156 |
| | Less: KCC Adjustment | (1,531,363) | 21.429% | (328,156) |
| 17 | Leasehold Improvements | 745,964 | 21.429% | 159,853 |
| 18 | Total | 6,706,992 | | $1,437,241 |

Staff Adjusted Corporate Allocated Assets

| Line No. | Asset Description | Original Asset Cost [1] | Staff Allocation % [2] | KGS Allocated |
|---|---|---|---|---|
| 19 | Office Furniture & Fixtures | 333,983 | 12.320% | 41,147 |
| 20 | Data Processing Equipment | 15,910,523 | 12.320% | 1,960,176 |
| 21 | Oracle Equipment | 7,000,000 | 12.320% | 862,400 |
| 22 | Audio Visual Equipment | 162,500 | 12.320% | 20,020 |
| 23 | Oracle Software | 20,642,789 | 12.320% | 2,543,192 |
| | Less: KCC Staff Adjustment | (2,642,092) | 12.320% | (325,506) |
| 24 | Purchased Software | 2,820,195 | 12.320% | 347,448 |
| 25 | Aircraft | 4,932,778 | 12.320% | 607,718 |
| | Less: KCC Staff Adjustment | (4,932,778) | 12.320% | (607,718) |
| 26 | Leasehold Improvements | 3,201,593 | 12.320% | 394,436 |
| 27 | Total | 47,429,490 | | 5,843,313 |

Staff Adjusted Corporate Allocated Accumulated Depreciation Expense

| Line No. | Asset Description | Original Asset Cost | Staff Allocation % | KGS Allocated |
|---|---|---|---|---|
| 28 | Office Furniture & Fixtures | 7,148 | 12.320% | 881 |
| 29 | Data Processing Equipment | 2,947,216 | 12.320% | 363,097 |
| 30 | Oracle Equipment | 1,555,439 | 12.320% | 191,630 |
| 31 | Audio Visual Equipment | 10,238 | 12.320% | 1,261 |
| 33 | Oracle Software | 1,376,186 | 12.320% | 169,546 |
| | Less: KCC Staff Adjustment | (172,023) | 12.320% | (21,193) |
| 34 | Purchased Software | 236,824 | 12.320% | 29,177 |
| 35 | Aircraft | 1,531,363 | 12.320% | 188,664 |
| | Less: KCC Staff Adjustment | (1,531,363) | 12.320% | (188,664) |
| 36 | Leasehold Improvements | 745,964 | 12.320% | 91,903 |
| 37 | Total | 6,706,992 | | $826,301 |

| | | |
|---|---|---|
| 38 | **Staff Pro Forma Adjustment to Corporate Allocated Plant** | **(4,320,352)** |
| 39 | **Staff Pro Forma Adjustment to Corporate Allocated Accum. Deprec.Plant** | **($610,940)** |
| 40 | **Net Pro Forma Adjustment to Rate Base** | **($3,709,412)** |

[1] Data Found in Electronic Schedules, Section 4, Schedule 4-B-WP, Page 1 of 1
[2] Allocation Percentage Calculated in Exhibit No.__JMP-

Kansas Gas Service, A Division of Oneok, Inc.
Adjusting Corporate Allocated Depreciation Expense by New Allocation Factor
Staff Adjustment No. 34 to the Income Statement

Applicant Corporate Allocated Depreciation Expense

| Line No. | Asset Description | Annual Corp Depreciation Exp. [1] | OKE DistriGas % [1] | KGS Allocated Corporate Deprec. Exp [1] |
|---|---|---|---|---|
| 1 | Office Furniture & Fixtures | 19,638 | 21.429% | 4,208 |
| 2 | Data Processing Equipment | 1,180,561 | 21.429% | 252,982 |
| 3 | Oracle Equipment | 2,333,331 | 21.429% | 500,009 |
| 4 | Audio Visual Equipment | 15,356 | 21.429% | 3,291 |
| 5 | Oracle Software | 2,064,279 | 21.429% | 442,354 |
| | Less: KCC Staff Adjustment | (264,209) | 21.429% | (56,617) |
| 6 | Purchased Software | 299,223 | 21.429% | 64,120 |
| 7 | Aircraft | 387,716 | 21.429% | 83,084 |
| | Less: KCC Staff Adjust,ent | (387,716) | 21.429% | (83,084) |
| 8 | Leasehold Improvements | 346,677 | 21.429% | 74,289 |
| 9 | Total | 5,994,856 | | 1,284,638 |

Staff Adjusted Corporate Allocated Depreciation Expense

| Line No. | Asset Description | Original Asset Cost [1] | Staff Allocation % [2] | KGS Allocated Corporate Deprec. Exp. |
|---|---|---|---|---|
| 10 | Office Furniture & Fixtures | 19,638 | 12.320% | 2,419 |
| 11 | Data Processing Equipment | 1,180,561 | 12.320% | 145,445 |
| 12 | Oracle Equipment | 2,333,331 | 12.320% | 287,466 |
| 13 | Audio Visual Equipment | 15,356 | 12.320% | 1,892 |
| 14 | Oracle Software | 2,064,279 | 12.320% | 254,319 |
| | Less: KCC Staff Adjustment | (264,209) | 12.320% | (32,551) |
| 15 | Purchased Software | 299,223 | 12.320% | 36,864 |
| 16 | Aircraft | 387,716 | 12.320% | 47,767 |
| | Less: KCC Staff Adjustment | (387,716) | 12.320% | (47,767) |
| 17 | Leasehold Improvements | 346,677 | 12.320% | 42,711 |
| 18 | Total | 5,994,856 | | 738,566 |
| | | | | |
| 19 | PowerPlant Software Costs Separately Allocated to KGS | | | 21,357 |
| 20 | Total Staff Pro Forma Corporate Depreciation Expense | | | 759,923 |
| 20 | **Staff Pro Forma Adjustment to Corporate Allocated Plant** | | | **(524,714)** |

[1] Data Found in Hernandez Workpapers for IS-37, Page 19 of 22
[2] Allocation Percentage Calculated in Exhibit No. JMP-5

Kansas Gas Serivce, a Division of ONEOK Inc.
Analysis of Acquisition Transaction Costs
Staff Adjustment No. 36 to the Income Statement

| Item | | | | | |
|---|---|---|---|---|---|
| 1 | Pro-Forma Amortization Costs per KGS - IS 39 | | | $ | 532,260 |
| 2 | Eligible Transaction Costs | $ | 7,000,000 | | |
| 3 | Amortization period/Months | | 480 | | |
| 4 | Monthly Amortization | $ | 14,583 | | |
| 5 | Annual Amortization | $ | 175,000 | | |
| 6 | Kansas Jurisdiction Percentage | | 45% | | |
| 7 | Kansas Jurisdictional Portion of Acquisition Costs | | | $ | 78,750 |
| 8 | Adjustment | | | **$** | **(453,510)** |

Kansas Gas Service, a Division of ONEOK Inc.
Yaggy Legal Costs Incurred in the Test Period
Staff Adjustment No. 37 to the Income Statement

The information contained in the remainder of this Exhibit has been deemed Confidential by KGS.

Docket No. 03-KGSG-602-RTS
Exhibit No. DND-25

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of KPP Legal Costs - Incurred by KGS
Staff Adjustment No. 38 to the Income Statement

| Year | Month | | $ |
|---|---|---|---|
| 2001 | September | $ | 68,231 |
| | October | | 46,060 |
| | November | | 42,305 |
| | December | | 33,651 |
| 2002 | January | | 70,625 |
| | February | | 23,500 |
| | March | | 35,916 |
| | April | | 15,626 |
| | May | | 15,255 |
| | June | | 1,550 |
| | July | | 8,423 |
| | August | | 7,854 |
| | Total | $ | 368,996 |
| | Three Year Amortization | $ | 122,999 |
| | **Adjustment** | **$** | **245,997** |

Source: DR 437

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of NGL Revenue
Staff Adjustment No. 39 to the Income Statement

| Year | Month | Test Period | Most Recent 12 Months |
|---|---|---|---|
| 2001 | September | $ 21,836 | |
| | October | 15,591 | |
| | November | 13,433 | |
| | December | 10,151 | |
| 2002 | January | 11,865 | |
| | February | 10,167 | |
| | March | 13,365 | |
| | April | 15,424 | $ 15,424 |
| | May | 16,813 | 16,813 |
| | June | 12,709 | 12,709 |
| | July | 12,541 | 12,541 |
| | August | 13,728 | 13,728 |
| | September | | 14,364 |
| | October | | 15,349 |
| | November | | 16,644 |
| | December | | 16,187 |
| 2003 | January | | 28,625 |
| | February | | 26,945 |
| | March | | 26,851 |
| | Total | $ 167,624 | $ 216,179 |
| | Increase | **$ 48,555** | |

Source: DR 404

Kansas Gas Service, a Division of ONEOK Inc.
Analysis of Projected Mtce. Agreement Costs
Staff Adjustment No. 40 to the Income Statement

**I. Schedule B Workpapers**
**Adjustment as Calculated by KGS**

| | | | | |
|---|---|---|---|---|
| Total Company Mtce. Agreements Projected through 12/03 | | | $ | 4,509,212 |
| Total Company Actual | | | | |
| Account 921 | $ | (852,577) | | |
| Account 932 | $ | (1,434,835) | | |
| | | | $ | (2,287,412) |
| Increase in Costs per KGS | | | $ | 2,221,800 |
| DistriGas Percentage | | | | 21.43% |
| Pro-Forma Adjustment Proposed by KGS | $ | 476,021 | | |

**II. Analysis of Sampled Pro-Forma Costs**
Certain items were selected out of the Budgeted $4.5M in MTCE Agreements

| | Budgeted Costs | | Actual Costs | | Effective Date | |
|---|---|---|---|---|---|---|
| True Secure | $ | 85,896 | $ | 85,900 | 6/03 | |
| IBM Hardware | $ | 282,000 | $ | 111,204 | 1/03 | |
| Oracle | $ | 1,000,820 | $ | 1,113,948 | 06/03 | |
| Microsoft | $ | 800,004 | $ | 592,497 | 03/03 | |
| PassPort | $ | 131,004 | $ | 56,772 | 09/02 | |
| IBM OS/390 | $ | 207,732 | $ | 207,732 | 01/03 | |
| | $ | 2,507,456 | $ | 2,168,053 | $ | 339,403 |
| Sampled Accuracy Rate | | | | 86.46% | | |
| Gross Budgeted Costs | | | $ | 4,509,212 | | |
| Pro-Forma Mtce. Costs | | | $ | 3,898,856 | | |
| Difference | | | $ | (610,356) | | |
| Multiplied by DistriGas Percentage | | | | 21.43% | | |
| **Pro-Forma Staff Adjustment IS-40** | | | **$** | **(130,769)** | | |

Kansas Gas Service, a Division of ONEOK
Analysis of Worker's Compensation Reserve, Account 253
Staff Adjustment No. 41 to the Income Statement

| Month | | Debits | | Credits |
|---|---|---|---|---|
| | 2000 | | | |
| January | | $ 26,440 | | $ (28,500) |
| February | | $ 26,394 | | $ (28,500) |
| March | | $ 31,831 | | $ (28,500) |
| April | | $ 30,308 | | $ (28,500) |
| May | | $ 30,567 | | $ (28,500) |
| June | | $ 29,888 | | $ (28,500) |
| July | | $ 61,508 | | $ (28,500) |
| August | | $ 37,461 | | $ (28,500) |
| September | | $ 41,263 | | $ (28,500) |
| October | | $ 92,066 | | $ (28,500) |
| November | | $ 20,622 | | $ (78,500) |
| December | | $ 27,278 | | $ (78,500) |
| | | | $ 455,627 | |
| | 2001 | | | |
| January | | $ 58,987 | | $ (38,000) |
| February | | $ 25,950 | | $ (38,000) |
| March | | $ 16,854 | | $ (38,000) |
| April | | $ 13,616 | | $ (38,000) |
| May | | $ 46,277 | | $ (38,000) |
| June | | $ 36,227 | | $ (38,000) |
| July | | $ 87,425 | | $ (38,000) |
| August | | $ 39,990 | | $ (38,000) |
| September | | $ 75,413 | | $ (68,000) |
| October | | $ 47,690 | | $ (38,000) |
| November | | $ 4,432 | | $ (38,000) |
| December | | $ 52,283 | | $ (38,000) |
| | | | $ 505,144 | |
| | 2002 | | | |
| January | | $ 15,856 | | $ (46,500) |
| February | | $ 39,617 | | $ (53,500) |
| March | | $ 36,573 | | $ (50,000) |
| April | | $ 64,976 | | $ (50,000) |
| May | | $ 79,402 | | $ (50,000) |
| June | | $ 65,172 | | $ (50,000) |
| July | | $ 23,097 | | $ (100,000) |
| August | | $ (34,918) | | $ (100,000) |
| September | | $ 31,870 | | $ (100,000) |
| October | | $ 26,841 | | $ (100,000) |
| November | | $ 41,796 | | $ (100,000) |
| December | | $ 34,312 | | $ (100,000) |
| | | | $ 424,594 | |
| | 2003 | | | |
| January | | $ 52,496 | | $ (70,000) |
| February | | $ 25,842 | | $ (70,000) |
| March | | $ 52,767 | | $ (70,000) |
| April | | $ 44,422 | | $ (70,000) |
| Test Period | | $ 469,594 | | $ (682,000) |
| Test Period Monthly Avg. | | $ 39,133 | | $ (56,833) |
| Total Jan. 00 - April 03 | | $ 1,560,892 | | $ (1,828,000) |
| Monthly Avg. | | $ 39,022 | | $ (45,700) |
| Annualized | | $ 468,267 | | |
| Test Year Expense | | $ 682,000 | | |
| **KCC Staff Adjustment IS-41** | | **$ (213,733)** | | |

Note: Credit amounts reflect Charges to Account 925
**Source: DR 434**

Kansas Gas Service, a Division of ONEOK
Analysis of Legal Property Reserve, Account 253
Staff Adjustment No. 42 to the Income Statement

| Month | Total Debits | | Monthly Reserve |
|---|---|---|---|
| | 2000 | | |
| January | $ 18,359 | | $ (39,000.00) |
| February | $ 10,849 | | $ (39,000.00) |
| March | $ 16,703 | | $ (39,000.00) |
| April | $ 14,334 | | $ (39,000.00) |
| May | $ 56,667 | | $ (39,000.00) |
| June | $ 16,505 | | $ (39,000.00) |
| July | $ (45,601) | | $ (39,000.00) |
| August | $ 21,073 | | $ (39,000.00) |
| September | $ 7,002 | | $ (39,000.00) |
| October | $ 12,347 | | $ (39,000.00) |
| November | $ 31,798 | | $ (39,000.00) |
| December | $ 7,087 | | $ (39,000.00) |
| | | $ 167,125 | |
| | 2001 | | |
| January | $ 8,518 | | $ (39,837.00) |
| February | $ 16,633 | | $ (39,837.00) |
| March | $ 84,963 | | $ (39,837.00) |
| April | $ 65,105 | | $ (39,837.00) |
| May | $ 48,085 | | $ (39,837.00) |
| June | $ 29,873 | | $ (39,837.00) |
| July | $ 23,891 | | $ (39,837.00) |
| August | $ 5,986 | | $ (39,837.00) |
| September | $ 642 | | $ (39,837.00) |
| October | $ 25,207 | | $ (39,837.00) |
| November | $ 17,623 | | $ (39,837.00) |
| December | $ 10,316 | | $ (39,837.00) |
| | | $ 336,842 | |
| | 2002 | | |
| January | $ 8,645 | | $ (40,000.00) |
| February | $ 6,356 | | $ (40,000.00) |
| March | $ 12,479 | | $ (70,000.00) |
| April | $ 14,715 | | $ (50,000.00) |
| May | $ 9,790 | | $ (50,000.00) |
| June | $ 6,731 | | $ (50,000.00) |
| July | $ 9,220 | | $ - |
| August | $ 18,473 | | $ - |
| September | $ 5,175 | | $ - |
| October | $ 77,084 | | $ - |
| November | $ 8,910 | | $ - |
| December | $ (25,243) | | $ - |
| | | $ 152,335 | $ (300,000) |
| | 2003 | | |
| January | $ 23,409 | | $ (30,000.00) |
| February | $ 6,261 | | $ (30,000.00) |
| March | $ 24,207 | | $ (30,000.00) |
| April | $ 9,945 | | $ (30,000.00) |
| Total Test Period | $ 140,197 | | $ (459,348) |
| Avg. Monthly Test Period | $ 11,683 | | $ (38,279) |
| Total Jan. 00 - April 03 | $ 720,124 | | $ (1,666,044) |
| Avg. Monthly Jan. 00 - April 03 | $ 18,003 | | $ (41,651) |
| Annualized Based Upon Jan.00 - April 03 | $ 216,037 | | |
| Avg. Monthly Debits Jan.00 - April 03 | $ 18,003 | | |
| Annualized | $ 216,037 | | |
| Test Period Credits (Represents Exp. Accruals) | $ 459,348 | | |
| Adjustment | **$ (243,311)** | | |

**CERTIFICATE OF SERVICE**
(03-KGSG-602-RTS

I hereby certify that on this 11th day of July, 2003, I caused a true and correct copy of the above and foregoing *Direct Testimony* to be deposited in the United States mail, postage prepaid, addressed to the following person.

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Paula J. Johnson

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

| | | |
|---|---|---|
| In the Matter of the Application of Aquila Inc. d/b/a/ Aquila Networks – WPK, for Approval of the Commission to make Certain Changes in Rates for Electrical Service. | ) ) ) ) ) | Docket No. 04-AQLE-1065-RTS |

****REDACTED VERSION****

DIRECT TESTIMONY AND EXHIBITS

OF

DAVID N. DITTEMORE

ON BEHALF OF

CITIZENS' UTILITY RATEPAYER BOARD

October 14, 2004

(**Denotes **Confidential** Information**)

## Table of Contents

**Testimony of David N. Dittemore**

**On Behalf of Citizens Utility Ratepayer Board**

**KCC Docket No. 04-AQLE-1065-RTS**



Attachments: DND-1 through DND-5

(Redacted Version does **not** include DND-3 (Confidential)

## I. INTRODUCTION

**Q. Please state your name.**

A. David N. Dittemore.

**Q. What is your occupation and business address?**

**A.** I am a self-employed consultant specializing in the area of public utility regulation. My business address is 8910 N. 131st E. Ave., Owasso, OK 74055.

**Q. Please discuss your educational background and regulatory experience.**

**A.** I received a Bachelor of Science degree in Business Administration with a major in Accounting from Central Missouri State University in 1982. From 1982 to 1984, I was employed as an Accountant by Standard Oil (Indiana). I accepted a Staff position with the Kansas Corporation Commission (KCC or Commission) in 1984 and held various Staff positions while at the KCC, including Chief of Accounting and Financial Analysis. In 1995, I accepted a position as Manager of Rates with Missouri Gas Energy. In 1996, I returned to the KCC as Deputy Director and was appointed Director of Utilities in 1997. I accepted a position with WorldCom in 1999 as Manager of Wholesale Billing Resolutions, with responsibilities for resolving disputed billing issues with facilities-based and resale long distance providers. In 2000, I accepted a position as Manager of Regulatory Affairs with The Williams Companies. During my tenure with Williams, I monitored wholesale electric power issues on behalf of Williams Energy Marketing and Trading, provided research on electric regulatory activities in key states and participated in due diligence efforts designed to secure long term power supply arrangements with electric utilities. In 2003, I began my consulting practice in the field of public utility regulation. In summary, I have experience in the natural gas, telecommunications, and electric industries, in addition to approximately fourteen years experience with the KCC.

**Q. On whose behalf are you appearing?**

**A.** I am appearing on behalf of the Citizens' Utility Ratepayer Board (CURB).

**Q. Have you previously testified before this Commission?**

**A.** Yes. I have testified on numerous occasions before the KCC, and once each before the Federal Energy Regulatory Commission (FERC) and the Interstate Commerce Commission (ICC).

## II. Executive Summary

**Q. Please summarize your testimony.**

**A.** CURB identifies several areas within West Plains Kansas' (WPK) purchasing practices involving affiliate transactions that demand additional scrutiny by the Commission. I will explain these concerns and discuss the actual and potential detrimental impacts to Kansas consumers resulting from WPK affiliated transactions. I will identify the varying regulatory practices of WPK's neighboring affiliates, West Plains Colorado (WPC) and Missouri Public Service

(MPS), and discuss the significance to WPK's customers in the context of these affiliated transactions. I will also recommend that the Commission urge WPK to formally study whether execution of hedging in 2005 is in the WPK's ratepayers interest. Finally, I will address the Energy Cost Adjustment (ECA) proposals submitted by WPK witness, Mr. Scott Keith.

More specifically, my findings are as follows:

1. The fact that WPK has a full flow-through ECA, coupled with MPS's lack of ECA and WPC's limited ECA, provides incentives for affiliate transactions that are contrary to the interests of WPK's ratepayers. The existence of such incentives presents risk for WPK consumers, justifying constant Commission oversight over WPK affiliate power transactions.
2. WPK customers are subsidizing WPC energy costs as a result of the Western Area Power Administration (WAPA) swap transaction, as described in greater detail in Section III of my testimony. CURB questions whether the swap transaction of energy should be accomplished by MPS rather than WPK. MPS has excess energy demonstrated by the level of its sales to WPK.
3. WPK interchange transactions with MPS should be carefully reviewed to determine if such transactions are priced properly. **[redacted]

[redacted]**

4. Due to a heavy reliance on gas-fired generation, WPK should formally study whether execution of hedging in 2005 is in WPK's ratepayers' interests.

5. CURB supports WPK's ECA proposal to eliminate the base portion embedded in the monthly ECA calculation. CURB recommends that the Commission credit ratepayers, through the ECA mechanism, all interchange margins in excess of the $344,000 built into base rates.

## III. Affiliated Transactions

**Q. Please provide an overview of the affiliate transactions that you discuss in testimony.**

**A.** CURB will address those transactions that it believes warrants further investigation by the Commission. In addition to the transactions listed below, WPK engages in other affiliate transactions, as described in the testimony of WPK witness, Mr. Jerry Boehm.

[1] The month of June 2004 was examined, however it is uncertain whether this issue impacts additional months.

WPK sells 20 MW of capacity and energy to WPC as part of an exchange agreement with the Western Area Power Administration (WAPA). Essentially, this transaction is an energy swap transaction between WAPA and WPK. The physical aspect of the transaction has WAPA delivering power to WPC, while WPK delivers power to WAPA customers, KEPCO, and other municipalities. The financial aspect of the transaction has WPC reimbursing WPK for the delivery of power to the WAPA customers. The energy displacement agreement allows WAPA to avoid wheeling power from its source in Colorado to its Kansas customers. Instead, WPK serves the WAPA customers (including KEPCO and various municipalities) from its composite system resources, including internal generation and purchased power. WPC compensates WPK for capacity and energy charges incurred in serving the WAPA customers, since it is taking physical delivery of the WAPA power to meet the needs of WPC native load. The energy portion of this transaction is priced to WPC based upon the system-average WPK system cost as set forth in the letter agreement between the parties attached as Exhibit DND-1. This 'average cost' pricing to WPC results in incremental costs incurred by WPK captive customers and is not in the public interest. I will discuss this issue later in my testimony.

WPK and MPS engage in a significant level of interchange transactions. These are short-term transactions needed to meet immediate system needs, or to displace other, more costly energy sources. Such transactions are increasing in scope in

2004, relative to 2003. CURB has concerns with the pricing of these transactions that will be addressed later in testimony.

### A. Regulatory Environment

**Q. Please begin by addressing your first point concerning the incentives posed by the regulatory mechanisms (or lack of mechanisms) in place impacting Aquila's operations in Missouri, Colorado and Kansas. Does WPK have a regulatory pass-through mechanism in place to recover its fuel and purchased power costs?**

**A.** Yes. As the Commission is well aware, WPK has an ECA in place that permits recovery of estimated fuel and purchase power costs on a monthly basis. The differences between estimated actual costs are trued-up in subsequent periods. Therefore, WPK is immune from the financial consequences of natural gas and purchased power cost increases.

**Q. How does this contrast with the regulatory mechanism in place in WPK's neighboring affiliate utilities, MPS and WPC?**

**A.** MPS has no ECA. Therefore, increases or decreases to fuel and purchased power costs directly impact MPS earnings. Of course, MPS may seek base rate recovery of cost increases, but this does not provide assurance that such cost increases would be recovered on a timely basis from MPS customers. Likewise, to the extent generation efficiencies are achieved or fuel costs decline, MPS earnings are enhanced and such benefits are not shared with MPS customers.

WPC operates under an incentive electric adjustment mechanism whereby it recovers 75% of the difference between the sum of actual fuel and purchased power costs and the base energy costs from its customers.[2] WPC has a strong incentive to minimize fuel and purchased power costs to its customers since it will absorb (either positive or negative) impacts from actual results versus those costs embedded in base rates.

**Q. Why is it important for the Commission to understand the implications of the regulatory mechanisms in place for Aquila's affiliates MPS and WPC?**

**A.** The Commission must be vigilant in its oversight of WPK's affiliate power transactions to ensure that the incentive Aquila has to shift higher costs to its Kansas jurisdiction does not result in excessive costs for WPK consumers. Fuel and purchased power costs incurred by WPK flow directly to ratepayers through the ECA mechanism. Conversely, costs increases or decreases to the MPS division (and to a lesser extent the WPC division) are borne by Aquila shareholders due to the lack of an ECA mechanism (MPS), or a comprehensive ECA mechanism (WPC). Therefore, Aquila has the incentive to enter into affiliate transactions that reduce costs to its MPS and WPC jurisdictions, even if the result is disadvantageous to WPK consumers.

The degree of Commission oversight over WPK's ECA should be a function of the risk borne by ratepayers. Given the incentives to shift costs to Kansas as

[2] CURB 152

described above, and the transmission constraints between WPK and its adjacent utilities (described below), the risk to WPK consumers justifies constant Commission oversight over affiliate power transactions.

**Q. You've discussed the risk implications from the existing regulatory environment. Please discuss how transmission constraints impact the level of risk to WPK ratepayers.**

**A.** WPK's response to CURB 161 highlights the limited number of suppliers able to supply economy energy to WPK:

> *For most hours of the year, when market energy is less expensive than WPK's gas units, the number of counterparties WPK can purchase exonomy energy from are very limited because there is no transmission available from SPP to import power. The only transmission that is normally available is from Sunflower or through the long term MAPP transmission path that WPK has bought to the Aquila MPS Jeffrey Bus. For example, it is very seldom that transmission is available for WPK to purchase economy energy from the North through Nebraska or from the East Holcomb Plant (which WPK has under contract). The other alternative is to purchase excess from MPS through the MAPP transmission arrangement. That arrangement allows MPS (to) sell up to 100MWs to WPK. This is the energy that was supplied to WPK during May, 2004.*

Thus, MPS is the primary supplier of economy energy to WPK due to transmission constraints. The limited transmission capacity poses risks to WPK consumers that such affiliate transactions may be unreasonably priced resulting in excess costs to consumers.

**Q. Has the Commission considered the elimination of the WPK ECA in prior dockets?**

**A.** Yes. The Commission adopted the joint recommendations of KCC Staff and WPK, as identified in the KCC Order in Docket No. 01-WPEE-532-TAR that authoried the retention of WPK's ECA clause, with modifications.

**Q. What has been the KCC Staff's position with regard to elimination of WPK's ECA?**

**A.** Staff expressed a number of concerns with the WPK ECA, which were identified in a KCC Staff memo to the Commission on January 14, 2002, within Docket No. 01-WPEE-532-TAR. Staff recommended continuation of the ECA with modifications rather than complete elimination of the mechanism. Staff's memo raised a number of concerns over potential ECA issues, including the following comment in the context of affiliate transactions:

> *Additionally the Commission should note that UCU's Missouri Public Service does not have an ECA or pass-through mechanism. Staff is concerned that UCU may be allocating higher cost power to its West Plains ECA while using the lower cost power to generate profit under its fixed Missouri rates.*

Subsequent to these comments, Staff and Aquila met to address various concerns identified in the memo, which culminated in the filing of a Joint Motion by Staff and Aquila to continue WPK's ECA mechanism with modification.

CURB echoes this concern expressed by Staff and recommends that the Commission investigate the issues raised by several affiliated transactions identified by CURB in this proceeding.

**Q. Since the Commission has already addressed the appropriateness of whether WPK's ECA should be eliminated in the July 2002 order, why should the Commission investigate certain affiliate transactions incorporated within the ECA?**

**A.** I will raise several issues that, to my knowledge, have not been formally addressed by the Commission. These affiliate transactions demand close scrutiny by the Commission to ensure that WPK customers are not incurring excessive costs.

### B. WAPA/WPC Transaction

**Q. Please summarize the WAPA displacement agreement.**

**A.** WPK sells 20 MW of capacity and energy to WPC as part of an exchange agreement with the WAPA. Essentially, this transaction is an energy swap transaction between WAPA and WPK. The physical aspect of the transaction has WAPA delivering power to WPC, while WPK delivers power to WAPA customers, KEPCO, and other municipalities. The financial aspect of the transaction has WPC reimbursing WPK for the delivery of power to the WAPA customers. The energy displacement agreement allows WAPA to avoid wheeling power from its source in Colorado to its Kansas customers. Instead, WPK serves the WAPA customers (including KEPCO and various municipalities) from its composite system resources, including internal generation and purchase power. WPC compensates WPK for capacity and energy charges incurred in serving the WAPA customers, since it is taking physical delivery of the WAPA power to meet the needs of WPC native load. The energy portion of this transaction is priced to WPC based upon the system-average WPK system cost, as set forth in the letter agreement between the parties, attached as Exhibit DND-1.

**Q. Please identify CURB's concerns associated with the WPC Affiliate transaction related to the WAPA Energy Displacement Agreement.**

**A.** ECA costs incurred by WPK customers are calculated by dividing total generation and purchased power costs (net of interchange sales) by total sales volumes, including wholesale sales. I will refer to this practice as the 'system average cost' methodology. However, the actual cost to serve this incremental WAPA load is substantially higher than the system wide average cost. Therefore a portion of the incremental energy costs incurred in serving this WAPA load is charged to WPK retail customers.

There is a disconnect between how energy is priced to WPC and the actual costs that are incurred by WPK to serve the WAPA load. The system average cost method spreads all energy costs equally between WPK retail load and this wholesale load. In practice, this results in the shifting of low-cost energy resources, such as Jeffrey Energy Center (JEC), to the WPC affiliate in the same proportion that native load customers receive JEC power. This ignores the fact that during months that WPK dispatches significant levels of gas-fired generation, JEC is fully utilized to serve native WPK retail load. Thus, the incremental WPC load is served by increasing output from highe- priced gas-fired generation.

The WAPA load creates heavier demand upon the WPK system. As demand increases, more costly generation and purchased power sources are called upon to meet the system energy requirements, including the requirements associated with the WPC contract. Therefore, the true energy cost to serve the incremental WAPA load must be determined by the cost of the incremental resources required to meet the incremental load. Absent this incremental cost approach, WPK ratepayers will be subsidizing both WPC consumers and Aquila shareholders.

**Q. Are you suggesting that the Commission abrogate this affiliated agreement between WPK and WPC?**

A. No. However, I am suggesting that this transaction be priced at the true incremental cost of serving the WAPA load, rather than at average system costs. The system-average methodology as employed by WPK in the ECA increases costs incurred by WPK retail consumers as a result of this transaction. The WPK ECA calculation should exclude the difference between the incremental costs associated with serving the WPC load and the system-average costs. This adjustment is necessary to protect WPK's consumers from the negative impact of the affiliate energy transaction with WPC.

**Q. Can you provide additional information to support your contention that the incremental costs to serve this load are greater than the system-wide average energy costs?**

**A.** Yes. A review of the March and July 2004 ECAs indicates a wide range of production costs that were incurred to meet WPK's wholesale and retail obligations. Listed below are selected average monthly costs by source, along with the average system monthly cost. It is important to note that generation and system purchase decisions are made on an hourly basis, and the costs of the sources vary by hour throughout the month. Therefore, the costs listed below are simply the average costs for that particular source for the entire month. I have provided results from a peak summer month and a shoulder month because average costs by source will vary based upon total load requirements.

| **July 2004 Average Production Costs for Selected Sources** | | | |
|---|---|---|---|
| **Source** | **Cost** | **MWH** | **Cost/MWH** |
| System Average | $11,451,682 | 265,451 | $43.14 |
| Jeffrey Energy Center | $ 1,512,728 | 110,807 | $13.65 |
| Judson Large | $ 2,231,146 | 30,787 | $72.47 |
| Cimarron River | $ 749,277 | 8,365 | $89.57 |
| Mullergren | $ 1,682,135 | 25,127 | $66.95 |
| MPS Purchases | **[redacted] | [redacted] | [redacted]** |
| System Purchases | $ 366,996 | 20,758 | $18.00 |
| Other Purchases (Net) | **[redacted] | [redacted] | [redacted]** |

| March 2004 Average Production Costs for Selected Sources | | | |
|---|---|---|---|
| Source | Cost | MWH | Cost/MWH |
| System Average | $ 6,396,906 | 199,006 | $ 32.14 |
| Jeffrey Energy Center | $ 889,161 | 66,071 | $ 13.46 |
| Judson Large | $ 1,352,561 | 21,947 | $ 61.63 |
| Cimarron River | $ 470,780 | 6,449 | $ 73.00 |
| Mullergren | $ 1,421 | (194,000) | NM |
| MPS Purchases | **[redacted] | [redacted] | [redacted]** |
| System Purchases | $ 919,433 | 49,745 | $ 18.48 |
| Other Purchases (Net) | **[redacted] | [redacted] | [redacted] ** |

As can be seen from the information above, production costs vary widely by source. This variability emphasizes the significance of JEC to WPK's production portfolio. JEC is a baseload coal-fired unit that produces low-cost energy and is run at the highest possible capacity factor, given system reliability and load considerations in the peak summer months. Absent the WAPA/WPC load, a higher portion of low-cost JEC power would be attributed to its native load WPK customers through the ECA mechanism. Furthermore, were it not for the WAPA/WPC load, WPK would limit the dispatch of more costly generation sources, such as Cimarron River and Judson Large (at least in the summer months), thereby reducing overall costs to WPK's ratepayers. Absent the incremental WAPA/WPC load, system-average costs would decline as WPK would reduce (or eliminate) reliance upon these higher-cost production sources. Under the existing ECA methodology, the WPC load enjoys the benefits associated with low-cost JEC production. Clearly, there are negative energy-cost implications resulting from this affiliate agreement for WPK customers. CURB believes that the transfer pricing associated with this affiliate transaction should reflect the true cost to serve the incremental WAPA load.

**Q. Have you quantified the ECA adjustment necessary to exclude these incremental costs from WPK's Kansas jurisdictional ECA?**

**A.** No. This type of calculation cannot be precisely made without sophisticated modeling necessary to identify the avoided cost for the WAPA/WPC load, considering economic dispatch and reliability/transmission considerations.

**Q. Given the complexity associated with the computation, what is your recommendation regarding the pricing of this affiliated transaction?**

**A.** CURB recommends that the Commission find that the incremental costs associated with this affiliate transaction should not be borne by WPK ratepayers, and find that an adjustment to the monthly ECA is required to protect WPK consumers. I am recommending that the Commission accept comments from all parties for the purpose of identifying reasonable estimates to incorporate into the ECA to reflect the incremental costs of serving this load. The Commission should also urge the parties to confer on this issue to determine a reasonable estimate of such incremental costs for purposes of the monthly ECA filing.

**Q. Has WPK identified benefits from this transaction for WPK consumers?**

**A.** Yes. WPK states that the sale of capacity generating $1.8M in revenues represents costs that would otherwise be borne by WPK customers.

**Q. Do you agree with this statement?**

**A.** No. WPK, by its own admission, has excess capacity on its system and, therefore, the assumption that the cost of this capacity would simply be shifted to WPK retail customers is not valid. Exhibit JGB-3 (sponsored by WPK witness Mr. Jerry Boehm) indicates that the existing capacity margin, including the sale of 20 MW of capacity to WPC, is 19%, significantly greater than that required by SPP. The implied reserve margin, absent the affiliate capacity sale to WPC, would approximate 22%. WPK's regulatory assumption that it would merely collect additional base rates associated with a higher level of Kansas jurisdictional capacity costs is unrealistic, given its extremely high level reserve margin. In addition, embedded in WPK's assumption is that it could not market the 20MW of capacity on the open market.

**Q. What is the annual level of sales from WPK to WPC?**

**A.** Displacement sales from WPK to WPC approximated 100,000 MWHs in 2003. If one assumed the incremental cost to serve this load was $20/MWH greater than the system-average costs, this would equate to incremental fuel costs borne by WPK customers of $2 Million per year. As I mentioned earlier in my testimony, one cannot easily determine the precise incremental cost associated with this affiliated transaction. However, the extent of the difference between the most costly production source and the system-average costs identified above demonstrates that this is an issue that warrants additional review by the Commission.

**Q. Have you compared the fuel costs associated with the MPS/SJP generation with that of WPK's?**

A. Yes. As shown in Exhibit DND- 2, fuel costs associated with MPS/SJP generation are less than 50% of the corresponding fuel costs of WPK generation. The 2003 fuel costs associated with WPK generation were $27.12/MWH compared with $13.31/MWH for MPS/SJP generation for the same period. MPS has excess energy, as evidenced by the quantity of sales to WPK on a monthly basis.[3]

**Q. What is your specific recommendation regarding the affiliate pricing underlying the displacement agreement?**

A. I recommend that the Commission formally review the affiliate pricing associated with this transaction to determine whether the ECA should be modified to protect WPK consumers from the incremental costs associated with the provision of energy to WPC. I also recommend that Aquila show why the energy portion of the displacement transaction could not be consummated between WAPA and MPS. Clearly, WPK is short of low-cost baseload energy as outlined in Exhibit DND-2. The Commission should investigate why low-cost MPS power could not be used to serve the WPC load rather than high-cost WPK gas-fired generation, the costs of which are incurred primarily by WPK's retail consumers.

[3] Exhibit DND-3 (Confidential).

### C. MPS Interchange Transactions

**Q. Please discuss your third point, concerning interchange transactions between WPK and MPS.**

A: The Commission should formally review affiliate interchange transactions between WPK and MPS, focusing on the following issues:

1. **[redacted]** While such sales were relatively small in scope, a broader investigation is necessary to determine whether other months with greater quantities were priced favorably to its affiliates.
2. The Commission should investigate whether WPK purchases from MPS were fairly priced. **[redacted]** The difference in pricing does not necessarily indicate improper affiliate dealings. However, such a review is necessary to gain assurance that the pricing of transactions is reasonable, especially in light of increased MPS purchases in 2004.
3. The Commission should conduct an investigation designed to determine how it will evaluate the reasonableness of affiliated interchange transactions between WPK and its affiliates, including MPS.

Currently, WPK has indicated that its purchases of interchange power from its affiliate, MPS, are at market prices under authority granted by the FERC, pursuant to the terms of the MAPP agreement.[4] The affiliate pricing is established within the Aquila organization. Thus, there is no independent confirmation that such pricing is appropriate, absent such review from state regulators.

**Q. Please discuss your first point—that the Commission should investigate whether WPK sales to MPS were priced less than market.**

**A.** Exhibit DND-3 (Confidential) outlines the monthly WPK purchases and sales with MPS for the period January 2003 through July, 2004. Exhibit DND-4 (CURB discovery request 157) is the original and supplemental response from WPK to the request that Aquila provide documentation for the interchange transactions between MPS to WPK. CURB discovery request 157 sought the underlying documentation supporting various interchange transactions, including a WPK affiliate purchase from MPS. The only documentation supporting the transaction was a one-page invoice from Aquila to WPK. Subsequent to a conference call with various WPK regulatory personnel, the attached worksheet was provided as a supplemental response to CURB 157, listing what is identified as market prices as contained in Megawatt Daily (MW) for the month of June,

[4] CURB 211

2004. Megawatt Daily is an industry publication supplying market prices at various liquid market hubs throughout the United States.[5]

As noted in Exhibit DND- 3 (Confidential), the monthly average price for WPK sales to MPS was ** [redacted]**, far less than the pricing shown within Exhibit DND-4, identified by WPK as representing daily market prices for June 2004.

It should be noted that the affiliate sales from WPK to MPS in June 2004 were **[redacted]**

**Q. Please address your second point, regarding the validity of prices paid for energy WPK purchased from its affiliate MPS.**

**A.** As shown on Exhibit DND-3 (Confidential), affiliate energy purchases from MPS have **[redacted]** justifies further investigation by the Commission.

[5] A liquid published market for power does not exist near Kansas, thus raising the question of the definition of 'market' for purposes of determining appropriate pricing.

Several items are of interest in the summary of interchange transactions contained in Exhibit DND-3 (Confidential). **[redacted]**

**[redacted]**. Two questions arise from this result. First, did WPK acquire energy from MPS at 'peak' times, thus, ** [redacted]**? Secondly, how should the Commission evaluate the reasonableness of the pricing of affiliate interchange transactions?

**Q. Please discuss your third point, that the Commission should establish a guideline by which to evaluate the validity of affiliate interchange power pricing.**

**A.** As I mentioned earlier in my testimony, WPK does not maintain sufficient documentation supporting the affiliated pricing occurring between WPK and MPS. Exhibit DND-3 (Confidential) indicates that total WPK interchange purchases from MPS totaled nearly **[redacted]** for the period January – July 2004. This represents a significant cost to WPK consumers. Regulatory oversight over these transactions is necessary to ensure that the costs incurred are not excessive. The need for ongoing regulatory scrutiny of these transactions is further justified, given the incentive created by the WPK ECA, coupled with the lack of ECA for MPS.

CURB recognizes the difficulty in establishing an appropriate proxy to evaluate the reasonableness of these affiliate transactions. In fact, WPK stated, in part, in CURB 178:

> *Spot market prices are capable of minute-to-minute fluctuations and as such our operators cannot realistically catalog these prices as requested.*

Despite the challenge in evaluating the reasonableness of these affiliate transactions, they are too significant to ignore.

CURB recommends that the Commission establish a proceeding to accept comments designed to determine the method to be used to monitor these transactions. The monitoring method determined by the Commission should strike a balance to ensure that such supporting information is not unduly burdensome to Aquila, but sufficient to ensure protection for WPK ratepayers.

## IV. Hedging

**Q. Please define hedging.**

**A.** Hedging may be defined as an investment that reduces the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related investment, such as a futures contract. In this context, hedging may be analogous to purchasing insurance, which is a product designed to protect buyers from adverse financial consequences arising from events outside their control. Likewise, hedging in the form of purchasing natural gas futures contracts may offer protection against future price fluctuations in the natural gas market.

**Q. Will hedging reduce natural gas costs?**

**A.** The direction of natural gas futures is impossible to predict. In the long run, hedging should not be expected to either reduce or increase total natural gas costs. The probability that a given hedge will be 'in the money' is essentially the same as the probability that the hedge will be unprofitable. Therefore, hedging should not be viewed as a vehicle to reduce total natural gas costs for a utility in the long run. However, hedging can be used as a tool to reduce risk of natural gas price spikes on behalf of WPK customers.

**Q. Please compare the impact from natural gas price volatility between WPK and its affiliates.**

**A.** Exhibit DND-5 sets forth a comparison of the generation mix of WPK with that of Aquila's other divisions (SJP, WPC and MPS). As can be seen on column E in Exhibit DND-5, over 55% of WPK's capacity is exclusively gas-fired, while an additional 12% of its capacity may rely on natural gas.[6] The heavy reliance on gas-fired capacity in WPK is in stark contrast with the remaining Aquila capacity comprised of only 8.5% that is exclusively fired by natural gas.[7] Thus, the WPK generation portfolio is outside the norm from the remaining Aquila divisions, in terms of its reliance on natural gas-fired generating capacity.

**Q. What are the implications from WPK's heavy reliance upon gas-fired generation as it relates to the need for hedging activities?**

**A.** WPK's heavy reliance on natural gas generation emphasizes the inherent risk its ratepayers bear from volatility in the natural gas markets. To a large extent, MPS ratepayers are shielded from such risks due to the smaller portion of natural gas-fired generation and the lack of an ECA mechanism. In the MPS and WPC divisions, shareholders bear the risk of natural gas price fluctuations.

**Q. Did Aquila execute hedging transactions on behalf of WPK in 2003?**

**A.** Aquila executed hedges for natural gas costs associated with its National Helium contract,[8] however such volumes were relatively small compared with total WPK gas usage. WPK cites the time required to obtain KCC regulatory approval to pass hedging costs (prior to execution) through the ECA as justification for not pursuing hedging transactions in 2003 and 2004.[9]

[6] Source: Aquila Statement 424B5 (Common Stock Prospectus) dated 8.16.04 submitted as Industrial Intervenor Exhibit II No. 3 in this docket.
[7] An additional 30% of Aquila generation has dual fuel capability.
[8] CURB 204.
[9] CURB 204. It should be noted that Aquila did execute significant hedges on behalf of WPK in 2001 (CURB 45).

**Q. Do you find this statement to be a compelling reason not to pursue hedging transactions during these periods?**

**A.** No, not at all. The complexity of the transactions, coupled with the potential that a utility could retain financially beneficial hedges and shift unprofitable transactions to consumers, argues for regulatory pre-approval of a framework for the purposes of providing flexibility for the utility to execute the hedging strategy. Thus, the Commission would not approve the specific hedging transactions executed by WPK. Instead, it would approve the general strategy underlying the hedging transactions. With appropriate planning ,WPK could pursue and implement a hedging strategy pursuant to KCC approval.

CURB has participated in the development and approval of hedging programs for Kansas Gas Service Company, Atmos Energy, Aquila's LDC's in Kansas and most recently, Midwest Energy's LDC. CURB is not opposed to hedging, and would actively participate in any discussion of a program for WPK.

**Q. What is CURB's recommendation regarding WPK's hedging strategy?**

**A.** CURB recommends that the Commission urge WPK to formally study whether execution of hedging in 2005 is in WPK's ratepayers' interests. WPK has indicated that it intends to pursue a more formal course to determine whether hedges for 2005 operations are appropriate.

> *WPK intends to analyze the 2005 gas markets and see if any beneficial gas hedging opportunities exist for its Kansas electric operations and discuss the findings with the KCC Staff this fall so*

*that KCC pre-approval of any hedging plan can be gained in a timely manner.*

CURB Discovery Response 204. At this time, CURB does not take a position on the extent to which WPK should hedge its natural gas requirements. CURB recommends that the Commission encourage WPK to study the issue of hedging for 2005 and meet with both Staff and CURB (and any other interested intervenor) to share its conclusions on whether a hedging strategy should be executed for 2005, as stated in response to CURB 204.

## V. ECA Proposal

**Q. Please explain the ECA proposal requested by WPK.**

**A.** WPK has proposed to eliminate the existing base energy charge of $16.35/MWH (or $.01635/kwh). This proposal does not have a financial impact on WPK consumers, but will affect the presentation of customer bills. Under WPK's proposal, all fuel and purchased power costs would be reflected as a separate line item on customer bills. Currently, the ECA is structured so that the difference between the estimated costs for the current month and $16.35/MWH are reflected as the line item amount of the ECA. The WPK proposal would remove the base energy charge from base rates and instead reflect total energy costs (subsuming the base energy costs) as a separate line item on customer bills.

**Q. Does CURB have a position on WPK's proposal to eliminate the base energy charge?**

**A.** CURB does not oppose this proposal because it will enhance customer understanding of actual utility costs. Energy costs shown on customer bills will more accurately reflect total actual energy costs and therefore will provide additional information to consumers. Access to better information provides the basis for wiser consumption decisions.

**Q. Do you have any other ECA recommendations?**

**A.** Yes. WPK's existing (and proposed) ECA permits WPK to retain off-system margins up to the level built into base rates. WPK's proposal incorporates approximately $344,000 of off-system sales margins as an offset to its base rate proposal. WPK proposes to provide consumer credits for 25% of the margins it achieves in excess of the $344,000 benchmark. This mechanism permits WPK to retain 75% of off-system sales margins in excess of those included in base rates.

CURB recommends that all interchange margins in excess of the $344,000 built into base rates be credited to ratepayers through the ECA mechanism. Ratepayers are currently incurring all of the Kansas jurisdictional portion of the costs of production, including depreciation costs and return on net plant, and, as such, should receive the benefits from any off-system margins. WPK should not be provided an incentive to reduce costs to its native load customers. WPK has a responsibility to its customers to pursue actions that reduce costs to ratepayers.

**Q. Do you have any additional comments?**

**A.** Yes. I'd like to thank WPK for their cooperation in the course of my investigation.

**Q. Does this conclude your testimony?**

**A.** Yes.

VERIFICATION

STATE OF OKLAHOMA )
COUNTY OF TULSA )

David N. Dittemore, being duly sworn upon his oath, deposes and states that he is a consultant for the Citizens' Utility Ratepayer Board, that he has read and is familiar with the foregoing testimony; and that the statements made herein are true to the best of his knowledge, information and belief.

David N. Dittemore
David N. Dittemore

Subscribed and sworn to before me this 12th day of October, 2004.

Notary Public Wm F Timmons

My Appointment Expires: 11-06-07

WM. F. TIMMONS
NOTARY PUBLIC
COMM.# 99016405
EXPIRES 11/06/07
IN AND FOR
STATE OF OKLAHOMA
TULSA COUNTY

## CURB Exhibits Sponsored by David N. Dittemore

**DND-1: WPK Letter Agreement with WPC**

**DND-2: Fuel Costs per MWH Production, WPK vs. Aquila's Missouri Divisions**

**DND-3 (CONFIDENTIAL): Summary of WPK/MPS Interchange Transactions**

**DND-4: CURB Discovery 157; Information Supporting Interchange Transactions**

**DND-5: Comparison of Generation Capacity; WPK vs. other Aquila Divisions**

Aquila

**Aquila Networks**
10700 East 350 Highway
P.O. Box 11739
Kansas City, MO 64138

December 30, 2002

Aquila Networks-WPC
PO Box 11739
Kansas City, MO 64138

Dear Mike Apprill:

Aquila, Inc. d/b/a Aquila Networks-WPC ("AQN-WPC") in Colorado agrees to purchase capacity with reserves and energy from Aquila, Inc. d/b/a Aquila Networks-WPK ("AQN-WPK") in Kansas, delivered to the AQN-WPC electrical system pursuant to and in accordance with the Service Schedule B ("Unit Commitment Service") of the Western Systems Power Pool Agreement ("WSPP Agreement") and the Energy Displacement Agreement ("Agreement") between Western Area Power Administration, Rocky Mountain Region ("Western"), and Aquila, Inc. d/b/a Aquila Networks (formerly referred to as WestPlains Energy, a division of UtiliCorp United Inc.) and constitutes part of and is subject to all of the terms and provisions of such Agreements. Terms used but not defined herein shall have the meaning ascribed to them in the Agreements. Additionally, AQN-WPC agrees to purchase and receive the capacity with reserves and energy from Aquila as agreed upon the rate and conditions as outlined below.

| | |
|---|---|
| **TERM:** | January 1, 2003 – December 31, 2005 |
| **QUANTITY:** | 20 MW of capacity with reserves and associated energy delivered into the AQN-WPC system. |
| **CAPACITY PRICE:** | Total price of capacity is \$7,800 per MW/month for an annual cost of \$1,872,000 (equivalent to approximate cost of \$7.80 per kW/month). |
| **PRICE:** | Energy price is \$20.75 MWh delivered into AQN-WPC system, plus the AQN-WPK fuel cost adjustment used in Service Schedule 89-MWh-5 effective 10-1-89 (copy attached) or the most recent replacement to this Fuel Clause Adjustment tariff that has been filed and accepted by the Federal Energy Regulatory Commission. |
| **SCHEDULING:** | Capacity and energy supplied will be delivered through firm transmission agreements with Western and/or other transmission providers. The capacity and energy will have the same reliability as provided to other customers receiving capacity and energy in the Western System Coordinating Council ("WSCC"). Availability is 100% subject to curtailments of the firm transmission service and/or loss of generation due to forced outages. The scheduling and energy purchase amounts are detailed in the following attachments. |

AQN-WPC agrees to enter into this Letter of Intent under which AQN-WPK shall provide capacity with reserves and associated energy under the Service Schedule B of the WSPP Agreement beginning January 1, 2003, and ending December 31, 2005.

If the above arrangements are satisfactory, please sign the three copies each of this letter and return them to me. We will in turn sign them and return one fully executed copy each for your files.

IN WITNESS WHEREOF, the parties hereto agree to the terms and conditions stated above as to be executed by their duly authorized officials.

**AQUILA, INC. d/b/a AQUILA NETWORKS-WPK**

By: Jolene Branning

Title: VP Resource Operations

**Acknowledged and Agreed to:**

**AQUILA, INC. d/b/a AQUILA NETWORKS-WPC**

By: Michael Appill

Title: VP Resource Management

**Docket No. 04-AQLE-1065-RTS**
**Analysis of MPS Variable Generating Costs**
**2003**

CURB -- Exhibit DND- 2

**Source: CURB 239 - Aquila FERC Form 1**

| Line No. | Plant | Fuel Costs | MWH | Fuel Cost per MWH | Expenses per Net KWH |
|---|---|---|---|---|---|
| | **Missouri** | | | | |
| 1 | Sibley | $ 36,844,549 | 3,170,803 | $ 11.62 | $ 15.40 |
| 2 | Ralph Green | $ 466,202 | 4,733 | $ 98.50 | $ 130.00 |
| 3 | Jeffrey Energy Center (MPS portion only) | $ 16,601,372 | 1,271,392 | $ 13.06 | $ 20.10 |
| 4 | KCI | $ 16,676 | (145) | NM | NM |
| 5 | Greenwood | $ 3,437,637 | 39,215 | $ 87.66 | $ 110.40 |
| 6 | Nevada | $ 30,039 | 90 | $ 333.77 | $ 539.10 |
| 7 | Iatan | $ 6,502,769 | 898,638 | $ 7.24 | $ 11.00 |
| 8 | Lake Road - Steam | $ 16,914,029 | 696,101 | $ 24.30 | $ 33.70 |
| 9 | Lake Road - Gas Turbine | $ 82,245 | (1,126) | NM | NM |
| 10 | Total Missouri | $ 80,895,518 | 6,079,701 | **$ 13.31** | $ 18.63 |
| | **Kansas** | | | | |
| 11 | Jeffrey Energy Center (WPK portion only) | $ 16,601,372 | 1,271,392 | $ 13.06 | $ 20.10 |
| 12 | Clifton | $ 554,074 | 4,223 | $ 131.20 | $ 199.00 |
| 13 | Judson Large | $ 20,864,686 | 308,428 | $ 67.65 | $ 74.70 |
| 14 | A. Mullergren | $ 5,432,890 | 93,778 | $ 57.93 | $ 74.60 |
| 15 | Cimarron River #1 | $ 4,136,403 | 78,203 | $ 52.89 | $ 70.20 |
| 16 | Cimarron River #2 | $ 47,812 | 524 | $ 91.24 | $ 71.91 |
| 17 | Total Kansas | $ 47,637,237 | 1,756,548 | **$ 27.12** | $ 35.27 |
| | **Split of Missouri Generation Sources** | | | | |
| 18 | MPS | $ 57,396,475 | 4,486,088 | $ 12.79 | |
| 19 | SJP | $ 23,499,043 | 1,593,613 | $ 14.75 | |
| 20 | Total | $ 80,895,518 | 6,079,701 | $ 13.31 | |

04-AQLE-1065-RTS

# **REDACTED EXHIBIT**

## CURB Exhibit DND-3:
## Summary of Interchange Transactions Between MPS and WPK

**Information Contained in**

## CURB Exhibit DND-3:
## Summary of Interchange Transactions Between MPS and WPK

**is deemed**

**CONFIDENTIAL**

**by the Applicant**

# AQUILA, INC.
## DOCKET NO. 04-AQLE-1065-RTS
## CITIZENS' UTILITY RATEPAYER BOARD
## DATA REQUEST NO. CURB-157

DATE OF REQUEST: July 16, 2004

DATE RECEIVED: July 16, 2004

DATE DUE: July 29, 2004

REQUESTOR: David Springe

QUESTION:

**Re: Invoice Copies**

Please provide a copy of all invoices supporting the following interchange transactions for May, 2004:

| Counterparty | Purchase (P) Sale (S) | MWH | Amount |
|---|---|---|---|
| Mo. Pub. Service | S | 0 | $ 140,000 |
| Mo. Pub. Service | S | 15,593 | $ 389,825 |
| St. Joseph Power | S | 7,797 | $ 194,925 |
| WPC | S | 0 | $ 156,000 |
| Gray County Wind LLC | P | 13,573 | $ 339,325 |
| Gray County Wind LLC | P | 15,593 | $ 389,825 |
| Mo. Public Service | P | 34,093 | $1,684,460 |
| St. Joseph Power | P | 3,837 | $ 123,330 |
| Sunflower Electric | P | 0 | $ 490,000 |
| WAPA | P | 3,000 | $ 118,900 |

**RESPONSE:**
See attached.
**ATTACHMENT:**

**ANSWERED BY:**
Debbie Hines

# Invoice No. EB3508



SEP Corporation d/b/a
Sunflower Electric Power Corporation
301 W. 13th St. ~ P.O. Box 1020
Hays, KS 67601-1020
Tel. 785.628.2845 ~ Fax 785.623.3395
www.sunflower.net

Aquila Networks - WPK
Attn: Trade Administrator
10700 E 350 Hgwy
Kansas City, MO 64138

Invoice Date: 05/07/2004

Payment Due: 06/01/2004

INTERCHANGE SALES CONTRACT
Capacity Charge Payment 3,304,000.00 1)

1) Includes the monthly charge for May of $490,000.

TOTAL DUE .......... $ 3,304,000.00 may

RECEIVED
MAY 10 2004

Remit by Wire to:

Bank: Bank of America
Branch: Kansas
ABA Number: 0260-0959-3
Account of: Sunflower Electric Power Corporation
Account Number: 005042539084

Direct Inquires to:

Billing: Mike Jeffus 785.623.3316
Email: mdjeffus@sunflower.net

CURB
Docket No. 04-AQLE-1065-RTS
May 2004 Market Prices
Provided by WPK



| Weekday | Dates | Peak Weighted Avg Entergy into, Central, Megawatt Daily Price Survey | Off-Peak Weighted Avg. Entergy into, Central, Megawatt Daily Price Survey |
|---|---|---|---|
| 1 | 5/3/2004 | 44.49 | 20 |
| 2 | 5/4/2004 | 43.68 | 19.5 |
| 3 | 5/5/2004 | 47.32 | 20 |
| 4 | 5/6/2004 | 45.36 | 21 |
| 5 | 5/7/2004 | 49.74 | 22 |
| 1 | 5/10/2004 | 51.14 | 23 |
| 2 | 5/11/2004 | 48.33 | 23.5 |
| 3 | 5/12/2004 | 50.36 | 23.75 |
| 4 | 5/13/2004 | 54.26 | 24.75 |
| 5 | 5/14/2004 | 49.09 | 25 |
| 1 | 5/17/2004 | 53.03 | 24.5 |
| 2 | 5/18/2004 | 54.15 | 19.5 |
| 3 | 5/19/2004 | 53.75 | 24.5 |
| 4 | 5/20/2004 | 52.55 | 26.5 |
| 5 | 5/21/2004 | 55.66 | 26.25 |
| 1 | 5/24/2004 | 56.54 | 26 |
| 2 | 5/25/2004 | 56.35 | 27 |
| 3 | 5/26/2004 | 54.31 | 24.25 |
| 4 | 5/27/2004 | 50.09 | 22.5 |
| 5 | 5/28/2004 | 47.18 | 22.5 |
| 1 | 5/31/2004 | 48.15 | 19.75 |

**Docket No. 04-AQLE-1065-RTS**
**Comparison of Generation Mix**
**WPK vs. Aquila**

CURB -- Exhibit DND-5

| Fuel Source | Aquila Prospectus Exhibit II - 3 (MW) | WPK Testimony Boehm (MW) | Total Aquila Generation Mix | WPK Generation | Aquila Non-WPK Generation | Total Aquila Non-WPK Generation Mix |
|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| Coal | 1019 | 176.8 | 49.11% | **31.68%** | 842.2 | **55.52%** |
| Gas | 439 | 310 | 21.16% | **55.56%** | 129 | **8.50%** |
| Oil | 90 | 2.5 | 4.34% | **0.45%** | 87.5 | **5.77%** |
| Coal and Gas | 122 | | 5.88% | **0.00%** | 122 | **8.04%** |
| Gas and Oil | 405 | 68.7 | 19.52% | **12.31%** | 336.3 | **22.17%** |
| Total | 2075 | 558 | 100.00% | 100.00% | 1,517 | 100% |

**CERTIFICATE OF SERVICE**

04-AQLE-1065-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing docket was placed in the United States mail, postage prepaid, or hand-delivered this 14th day of October, 2004, to the following:


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- KGO
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LIBERAL, KS 67905-1829


Niki Christopher

* Denotes those receiving the Confidential version

2004.06.25 15:05:27
Kansas Corporation Commission
/S/ Susan K. Duffy

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

JUN 2 5 2004

Susan Talbott Docket Room

| | | |
|---|---|---|
| In the Matter of the Application of Council Grove Telephone Company for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008(f). | ) ) ) ) | Docket No. 04-CGTT-679-RTS |

REDACTED DIRECT TESTIMONY AND ATTACHMENTS

OF

DAVID N. DITTEMORE

ON BEHALF OF

KANSAS CORPORATION COMMISSION STAFF

June 25, 2004

(*Denotes Confidential Information*)

## I. INTRODUCTION

**Q. Please state your name.**

**A.** David N. Dittemore.

**Q. What is your occupation and business address?**

**A.** I am a self-employed consultant specializing in the area of public utility regulation. My business address is 8910 N. 131st E. Ave. Owasso, OK 74055

**Q. Please discuss your educational background and regulatory experience.**

**A.** I received a Bachelor of Science degree in Business Administration with a major in Accounting from Central Missouri State University in 1982. From 1982 to 1984, I was employed as an Accountant by Standard Oil (Indiana). I accepted a Staff position with the Kansas Corporation Commission (KCC or Commission) in 1984 and held various Staff positions while at the KCC, including Chief of Accounting and Financial Analysis. In 1995, I accepted a position as Manager of Rates with Missouri Gas Energy. In 1996, I returned to the KCC as Deputy Director and was appointed Director of Utilities in 1997. I accepted a position with WorldCom in 1999 as Manager of Wholesale Billing Resolutions, with responsibilities for resolving disputed billing issues with facilities-based and resale long distance providers. In 2000 I accepted a position as Manager of Regulatory Affairs with The Williams Companies. During my tenure with Williams, I monitored wholesale electric power issues on behalf of Williams Energy Marketing and Trading, provided research on electric regulatory activities in key states and participated in due diligence efforts designed to secure long term power supply arrangements with electric utilities. In 2003, I began my consulting practice in the field of public utility regulation. In summary, I have experience in the natural gas, telecommunications, and electric industries, in addition to approximately fourteen years experience with the KCC. I am a Certified Public Accountant.

**Q. On whose behalf are you appearing?**

**A.** I am appearing on behalf of the Commission Staff (Staff).

**Q. Have you previously testified before this Commission?**

**A.** Yes. I have testified on numerous occasions before the KCC and once each before the Federal Energy Regulatory Commission (FERC) and the Interstate Commerce Commission (ICC).

**Q. Please describe the tasks you performed related to your testimony in this case.**

**A.** I obtained and reviewed the filing submitted by Council Grove Telephone Company (CGT, or Company), reviewed CGT's data request (DR) responses, and performed other procedures as necessary to obtain an understanding of the Company's filing to formulate an opinion concerning the reasonableness and appropriateness of such proposals. This included an on-site review at the Company's offices in Council Grove, Kansas.

**Q. What issues do you address in your testimony?**

**A.** My direct testimony identifies and discusses areas of concern with respect to the Company's calculation of rate base, net operating income, and determination of its intrastate revenue requirement. I present recommendations for consideration by the Commission and sponsor Staff's proposed rate base and income statement adjustments.

**Q. What additional documents are being filed with your testimony?**

**A.** The workpapers for each adjustment are included in Attachment DND-1. Data Request (DR) responses referenced in my testimony and other documents referenced in my testimony are included in Attachment DND-2.

**Q. Please explain how you labeled the other attached documents and calculations.**

**A.** Documents are labeled consecutively to correspond with each adjustment to which they relate. Calculation workpapers are labeled as Workpaper RB-1, Workpaper RB-1.A, etc. DR responses, referenced in my testimony, are in numerical order.

## II. STAFF ACCOUNTING SCHEDULES

**Q. Are you sponsoring the Staff accounting schedules?**

**A.** Yes.

**Q. Please summarize how Staff's Accounting Schedules are organized?**

**A.** Summary Schedules are presented first, with the Schedules showing the derivation of the recommended adjustments following. The elements comprising the proposed revenue requirement are summarized on Staff Schedule REV REQ. Staff's proposed rate base is brought forward from Staff Schedule A-1, Staff Adjusted and Pro Forma Rate Base. Similarly, Staff's adjusted net operating income recommendations are brought forward from Staff Schedule B-1, Staff Adjusted and Pro Forma Operating Income Statement. Staff's cost of capital recommendation is set forth on Staff Schedule C-1, Capital Structure. Adam Gatewood sponsors Staff's cost of capital recommendation. The Schedules are organized as follows:

- REV REQ lists individual components of Staff's pro forma revenue requirement calculation, delineated between total company, interstate, and intrastate.
- A-1 shows Test Year Rate Base, as adjusted by the Company and Staff, on a total the Company basis, separations factors, and amounts allocated to interstate and intrastate jurisdictions.
- A-2 lists Staff's individual Adjustments to the Company's pro forma Rate Base.
- A-3 calculates Cash Working Capital (CWC), as adjusted by the Company and Staff.
- A-4 contains an explanation of Staff's Rate Base Adjustments.
- B-1 contains the Test Year Income Statement, as adjusted by the Company and Staff, delineated on a total Company basis, separations factors, and amounts allocated to the interstate and intrastate jurisdictions.
- B-2 lists Staff's individual Adjustments to the Company's pro forma test year Income Statement.

- B-3 contains an explanation of Staff Adjustments to the Income Statement.
- B-4 includes the calculation of the Company's income taxes.
- B-4-1 shows the calculation of the Company's interest expense.
- C-1 shows the Company's test year and Staff adjusted Capital Structure.
- D-1 shows the calculation of the Company's Times Interest Earned Ratio (Tier) and Debt Service Coverage (DSC).

**Q. Are Staff's adjustments allocated to the interstate and intrastate jurisdictions prior to inclusion in Staff's Schedules?**

**A.** No. Staff calculated its adjustments on a total company basis, with the adjustments allocated between the jurisdictions, based on separations factors. Some amounts, such as rate case expense, are directly assigned to the appropriate jurisdiction. Staff witness Roxie McCullar sponsors testimony regarding the review of CGT's separations study.

## III. OVERALL FINANCIAL SUMMARY

**Q. What is the Company's proposed intrastate revenue requirement?**

**A.** CGT's application calculated an intrastate revenue deficiency of $1.639 million, based on a 10% overall rate of return.[1]

**Q. What is Staff's calculated revenue deficiency?**

[1] CGT's application, Section 3, Schedule 1 and February 2, 2004 Direct Testimony of Christopher S. Barron, page 9, line 10.

**A.** Staff has calculated an intrastate jurisdictional revenue deficiency of $864,885, based on a 7.77% overall rate of return.

**Q. What are Staff's recommendations regarding its results?**

**A.** Staff recommends that the Commission adjust CGT's Kansas Universal Service Fund (KUSF) support to reflect the Commission's determination of the Company's intrastate revenue requirement.

**Q. What has been Staff's objective in evaluating CGT's application for supplemental KUSF?**

**A.** Staff seeks to strike a balance between two stakeholder groups in this proceeding; CGT and Kansas telecommunications customers incurring the costs of the KUSF subsidy. Staff evaluated CGT's revenue requirement with the intent of providing compensation necessary to permit CGT an opportunity to recover its regulated cost of service, while at the same time ensuring that Kansas telecommunication customers subsidize only those costs necessary to provide such service.

**Q. Please summarize Staff's conclusions and recommendations.**

**A.** Based on the review of the Company's testimony, discovery responses, and publicly available information, as well as my experience in the area of regulatory accounting and policy, my conclusions and recommendations are as follows:

- A number of adjustments should be made to the Company's filed results. The specific adjustments discussed in my testimony and their respective impact on test year rate base and operating expense are summarized below:

| W/P # | Description | Total Company Amount | Kansas Intrastate Amount |
|---|---|---|---|
| | **STAFF RATE BASE ADJUSTMENTS** | | |
| RB-1 | Accumulated Deferred Income Taxes | $ 483,285 | $ 346,984 |
| RB-2 | Cash Working Capital | $ (8,477) | $ (8,477) |
| | **STAFF OPERATING INCOME ADJUSTMENTS** | | |
| IS-3 | WCOM Writeoff | $ 52,884 | $ 52,884 |
| IS-4 | Promotional, Lobbying, Donations | $ (15,136) | $ (7,338) |
| IS-5 | Insurance Expense | $ (32,447) | $ (18,684) |
| IS-6 | Customer and Corporate Operations Expense | $ (87,859) | $ (20,390) |
| IS-7 | Property Taxes | $ (82,520) | $ (57,936) |
| IS-8 | Allocated Building and Warehouse Expense | $ (29,612) | $ (20,930) |
| IS-9 | Depreciation Expense | $ (7,963) | $ (5,179) |
| IS-11 | Rate Case Expense | $ (2,103) | $ (2,103) |
| IS-10 | Income Tax Expense | $ (220,326) | $ (220,326) |

- Based on the adjustments recommended by me and other Staff witnesses and Staff's recommended rate of return, CGT has an intrastate revenue requirement deficiency of $864,885.

## IV. STAFF RECOMMENDED ADJUSTMENTS

**Q. Please discuss the adjustments to the Company's filing that Staff is recommending.**

**A.** In the following sections of my testimony, I discuss the adjustments to the Company's application that Staff recommends. Other Staff witnesses explains other adjustments, which have been included in the derivation of Staff's recommended intrastate revenue requirement.

**Q. How will you identify and refer to the individual Staff accounting adjustments?**

**A.** Both rate base and operating income adjustments have been numbered sequentially, but separately, beginning with the number one. The first rate base adjustment is referenced as Staff Adjustment RB-1. Similarly, the first operating income adjustment is identified as Staff Adjustment IS-1. Staff witness McCullar is sponsoring Adjustments IS-1 and IS-2. I am sponsoring Staff Adjustments RB-1 and RB-2, and IS-3 through IS-11. Staff witness Adam Gatewood sponsors Staff's capital structure and return on equity recommendations.

**Q. Provide an overview of CGT's corporate structure.**

**A.** CGT, owned by Tri-County Cooperative Telephone (TCT), provides local service to approximately 2,200 access lines in Kansas. CGT also provides long distance and internet service. While the Commission regulates the Company's long-distance operation, it is referred to as a non-regulated operation for purposes of this docket to allow for equitable treatment with companies that offer long-distance services through a non-regulated subsidiary.

CGT is somewhat unique in that it is a distinct corporate entity owned by TCT, a member-owned cooperative. CGT is a taxable entity, with earnings accruing to the members' equity accounts of the owners of TCT, a tax-exempt entity. As contained in the testimony of CGT General Manager Jones[2], CGT's recent history includes the purchase by Green Street Capital in 1998 and its subsequent sale to TCT in 2000.

**Rate Base Adjustments –**

**Q. Please discuss Staff RB 1.**

**A.** Staff RB 1 increases Rate Base $483,285 on a total company basis or $346,984 on an intrastate basis, by eliminating the Accumulated Deferred Income Tax (ADIT) balance, which is a Rate Base offset. This adjustment is recommended in conjunction with Staff Adjustment IS-10 and is discussed in greater detail below. Commission acceptance of this adjustment is predicated upon acceptance of Staff Adjustment IS-11 adjusting Income Taxes, therefore, the two adjustments must be considered in tandem. Adjustment RB-1 is set forth on Attachment DND-1, Workpaper RB-1.

**Q. Please explain Staff's adjustment for RB-2.**

**A.** Adjustment RB-2 computes a Cash Working Capital (CWC) allowance using adjusted expense amounts and the Standard Allowance Method (SAM). This adjustment, reducing CWC $8,477, shown on Schedule A-3 of the Staff Accounting Schedules.

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[2] See Direct Testimony of Dale Jones, filed Feb. 2, 2004, pp. 2-4.

In its Order dated September 10, 2001, in Docket No. 01-SNKT-544-AUD,[3] the Commission stated that, while it prefers an individualized company lead-lag study, it recognizes that such a study could be cost prohibitive to some companies. The Commission indicated that if a company uses the SAM to calculate CWC in its filings with the Federal Communications Commission (FCC) and National Exchange Carriers Association (NECA), the Commission would accept a company's use of the SAM in these Kansas Universal Service Fund (KUSF) audits. CGT utilized the SAM to calculate CWC in its filings with the FCC and NECA and in its filing with this Commission.

**Q. Is Staff proposing any adjustments to the SAM in this proceeding?**

**A.** No.

**Income Statement Adjustments:**

**Q. Please explain Staff Adjustment IS 3.**

**A.** Staff Adjustment IS 3 corrects CGT's Adjustment IS 3 by increasing total company and intrastate access revenues $52,884. The intent of CGT's adjustment was to remove the non-recurring impact resulting from the write-off of revenue associated with WorldCom's (now MCI) bankruptcy petition. Staff agrees with the intent of this adjustment. However, rather than correctly increasing revenue to remove the non-recurring impact of this event, CGT further reduced revenues, in essence double counting the reduction in access revenue from the WorldCom bankruptcy. Therefore, Staff's adjustment must reverse the original $26,442 adjustment made in error, and

[3] Southern Kansas Telephone Company, Inc., at paragraph 62.

then re-state the adjustment as an increase in revenues to normalize the impact of this one-time event, resulting in a total increase in pro-forma revenues of $52,884. As indicated in DR 78, attached, CGT agrees the adjustment should be reversed. This adjustment is set forth on Workpaper IS 3.

**Q. Please describe Staff Adjustment IS 4.**

**A.** Staff Adjustment IS 4, comprised of three components, eliminates $15,136 of total company costs, and $7,338 of intrastate costs, properly categorized as donations, image advertising, lobbying/political expense and dues and donations. Consistent with prior Commission decisions[4], KUSF payers should not be required to bear the costs associated with corporate image advertising and lobbying/political expenses. Further, this adjustment limits recovery of donations to fifty percent of the total cost, consistent with past Commission decisions.. Supporting information for this adjustment is included in Workpaper IS-4 through IS-4.3.

Staff Adjustment IS 4 removes the corporate image advertising costs recorded in Accounts 6613, 6722 and 7370, by $7,691 on a total company basis or $4,499 on an intrastate basis, as provided in CGT's response to DR 43, attached. Staff removed these costs since the subsidy revenue stream flowing from KUSF payers to KUSF recipients should be limited to those costs necessary to provide telecommunications service and not extend to enhancing the image and community standing of CGT.

[4] Docket Nos. 01-RRLT-083-AUD, Order dated June 25, 2001, and 01-SNKT-544-AUD, Order dated September 10, 2001.

This adjustment also removes $7,445 on a total company basis or $2,840 on an intrastate basis, related to lobbying dues and donation costs recorded by CGT as identified in DRs 45, 47, 48, 192 and 193. Consistent with K.S.A 66-1,193(a) one-half of donations were included in the revenue requirement based upon information received in DRs 46 and 48, as well as a review of CGT's General Ledger.

It is important to understand the distinction between the costs excluded in Staff Adjustment IS 4, and those discussed within Staff Adjustment IS 6 below. The costs excluded in Staff Adjustment IS 4 are those costs recorded directly on the books of CGT. The costs excluded in Staff Adjustment IS 6 are those TCT costs that are subject to allocation between CGT and TCT. The costs within each adjustment are mutually exclusive and do not represent the same sets of costs.

**Q. Please describe Staff Adjustment IS 5.**

**A.** Staff Adjustment IS 5 reduces total company operating expenses by $32,447, and intrastate expenses by $18,684, by eliminating the impact from non-recurring expenses identified in CGT Adjustment IS 2. The purpose of CGT's Adjustment IS 2 was to eliminate the non-recurring insurance proceeds charged to Account 5264, Other Incidental Regulated Revenue. As indicated in CGT testimony, the bulk of this adjustment relates to the reversal of a revenue entry to record the receipt of an insurance claim from damages sustained from a lightening strike. Staff agrees with the removal of the insurance proceeds from operating revenue, however CGT failed to recognize the corresponding adjustment to eliminate this one-time event from operating expenses. Based on CGT's response to DR 77, attached, the expense, incurred as a result of the lightening strike, was recorded in Account 6212, Digital Electronic Expense. Insurance reimbursement proceeds should have been recorded as a contra-expense, reducing the expense recorded in Account 6212. Instead the reimbursement was recorded to Account 5264, Other Incidental Regulated Revenue. The justification supported by CGT for eliminating the impact of the lightening strike on Operating Revenues must also apply to the expenses recorded associated with this unusual event. Staff's Adjustment IS 5 is necessary to remove the expense impact of this one-time charge consistent with CGT's removal of the revenue associated with the insurance reimbursement. CGT has indicated its agreement with removal of this one-time expense in DR 105, attached. This adjustment is shown on Workpaper IS-5.

**Q. Please continue with an explanation of Staff Adjustment IS 6.**

**A.** Staff Adjustments IS 6 reduces Customer Operations and Corporate Operations $2,995 and $73,472, respectively, on a total company basis or $1,846 and $27,971 on an intrastate basis. The adjustment is necessary to eliminate certain costs that should not be recovered from KUSF payers, direct assign costs to CGT and TCT when possible (thus properly identifying the common costs subject to allocation), and to allocate the residual costs using a causal allocation methodology rather than a general allocator as proposed by CGT.

The rationale for Staff's adjustment is as follows;

- CGT has improperly computed its pro-forma adjustment by netting its annual year true-ups for 2002 and 2003, resulting in excessive corporate costs reflected in its cost of service. CGT has acknowledged its administrative and general costs are overstated by $58,025, in DR 75, attached.

- Rather than using an average of the two factors underlying the allocation of corporate overhead costs between CGT and TCT, CGT has merely added plant and revenue data together in developing a single allocation factor. Summing the two unrelated data sets results in the gross fixed assets comprising nearly 85% of the combined ratio, giving an inordinate emphasis on fixed assets. Since a large portion of common administrative costs, subject to allocation, are comprised of executive and management labor and attendant benefit costs, Staff recommends allocating these costs based upon the proportionate level of direct labor charged to each company.

- CGT has allocated customer service costs, recorded in the 66xx series of accounts, when instead the charges may be directly attributable in total to either CGT or TCT. Thus allocation is not only unnecessary, it is also improper.

- A portion of the charges in the Executive and General and Administrative Expenses, the 67xx account series, are not required to provide telecommunication service and, therefore, should be eliminated from CGT's revenue requirement.

- A portion of the remaining charges in the 67xx series should be directly assigned to the specific company rather than allocating the entire balance in the accounts. Pursuant to 47 C.F.R. Part 69.901 (Part 69.901), costs should be directly attributed wherever possible.

- General and administrative costs were not allocated between regulated and non-regulated activities and instead were considered 100% regulated costs. Failure to allocate common costs between regulated and non-regulated operations will result in excessive subsidy payments from KUSF payers.

**Q. Please explain how the adjustment was calculated.**

**A.** Staff's calculation of this adjustment is shown on Workpaper IS-6, while supporting schedules are contained in Workpaper IS 6.1 through 6.4.10. First, Staff identified the total common costs of TCT and CGT that support both entities. To arrive at these common costs, Staff first eliminated certain lobbying, image advertising, TCT member gifts and one-half of donation costs for the test period. The exclusion of these costs is consistent with prior Commission orders indicating that lobbying, image advertising, door prizes and fifty percent of donation costs should be eliminated from the determination of the KUSF revenue requirement[5]. KUSF subsidy payers should not be required to compensate the utility for these non-essential costs. These costs are costs on TCT's books that are allocated to CGT, contrasted with the CGT direct image advertising, lobbying and donation costs that are included in Staff Adjustment IS 4. The next step was to identify those costs that should be directly assigned to

[5] Id.

either CGT or TCT. As discussed below, costs that may be specifically identified with a given entity should be charged to that entity and not included in the common cost pool allocated between entities. Staff further adjusted the level of common costs by $100,000 to eliminate the costs of a split-dollar life insurance policy on the CGT General Manager. The premiums for this policy are non-recurring, and must be eliminated from the common cost pool. In response to DR 186, attached, CGT acknowledged that the final payment was made in January 2003, thus these costs are non-recurring in nature.

Then, Staff developed a ratio of CGT regulated direct labor to TCT total labor as shown on Workpaper IS 6.2. For purposes of this ratio, TCT total labor includes all direct charged labor of the TCT organization, which includes CGT labor. Since the purpose of the ratio is to allocate the common costs, primarily those costs included in Account Series 67xx, the common labor (applicable to both CGT and TCT) charged to these accounts is not included in the allocation ratio. As shown in Workpaper IS 6-2, Staff's calculated CGT regulated labor ratio is 22.48% based upon the direct labor charges of CGT and TCT personnel to accounts other than 67xx. This composite ratio is the product of two individual ratios. First, Staff developed the ratio of total non-regulated payroll to total payroll as shown on Workpaper IS 6.2, (line 16), resulting in a non-regulated ratio of 10.96%. This information was obtained from payroll information summarized on Workpaper IS 6.3 (deemed Confidential by CGT). Then Staff calculated the ratio of CGT regulated labor to total regulated labor (Workpaper IS 6.2, line 22), resulting in a CGT ratio of 25.25%. The product of the regulated payroll ratio (1-10.96%) multiplied by the CGT regulated ratio of 25.25%, results in a composite ratio of 22.48%.

Based on CGT's response to DR 147,attached, if TCT employees perform work specifically associated with CGT, the costs are directly recorded on the books and not allocated. However, no management time is directly assigned between entities or between regulated and non-regulated operations. All management time is included in the common cost pool. The non-regulated ratio and CGT regulated labor ratio is then applied to the common costs, both labor and non-labor, to determine the appropriate level of CGT allocated costs to regulated operations.

In summary, Staff's pro-forma adjustment is calculated as the difference between the total CGT costs recorded to the 66xx and 67xx accounts, plus the applicant's pro-forma adjustment compared to Staff's pro-forma level of Customer and Corporate Operations Expense. Staff computed its pro-forma level of corporate cost expenses by summing direct CGT costs, net of allocation of total CGT costs to non-regulated operations, with common costs allocated to CGT regulated operations.

**Q. Please discuss how Customer and Corporation Operations costs are assigned to CGT and TCT.**

**A.** Costs recorded in the 66xx account series, Customer Operations, are primarily comprised of labor costs and benefits of CGT employees, labor costs and benefits of

TCT employees providing services on behalf of CGT[6], and outside vendor costs for billing, financial and regulatory services. Costs recorded in the 67xx account series, Corporate Operations, are primarily comprised of executive labor, board of director fees and travel costs, accounting and legal fees, investor relations costs, engineering costs and various types of advertising expenses.

During the year, these costs are assigned directly either to CGT or TCT or a pre-determined allocation ratio is assigned to common costs. A true-up adjustment is made once a year by summing all Customer and Corporation Operation costs (except legal and audit fees) for a given quarter and applying a corresponding quarterly allocation ratio. The sum of the allocated costs is then compared with actual recordings during the year and the books are adjusted to reflect the result of the allocation process. This methodology results in the allocation of costs that were originally directly charged to either TCT or CGT, depending upon which entity actually incurred the cost.

**Q. Does CGT have any internal guidelines governing the assignment of certain general and administrative costs between the two entities?**

**A.** Yes. The services provided by TCT to CGT are outlined in a March 2000 management agreement (Agreement) between the two entities. This Agreement is included in Attachment DND-2.

[6] Staff believes TCT has loaded excessive benefit costs to CGT, which is discussed separately later in testimony.

**Q. Does Staff have any concerns with the Agreement?**

A. Yes. There are several concerns with the terms of the Agreement. The Agreement places excessive emphasis on cost allocation, rather than relying upon directly assigning costs to the entity that incurs the costs. Secondly, the computation of the ratio used to allocate costs between the two entities is flawed in that completely unrelated data is added together to determine a single common allocation ratio. Each of these issues is discussed in greater detail below.

**Q. What general allocation principles does Staff believe provide guidance in determining the reasonableness of the allocation of costs between TCT and CGT?**

**A.** Part 64.901 governs the allocation of costs between regulated and non-regulated operations. CGT failed to directly assign or to allocate these management fees to non-regulated operations, resulting in overstated expenses for purposes of determining a regulated revenue requirement. Prior to allocation between CGT regulated and non-regulated operations, these costs must first be properly assigned between TCT and CGT operations, consistent with the cost assignments set forth in Part 64.901.

In summary, Part 64. 901 requires:

1. Costs that may be directly assigned to an entity should be charged to that entity and rather than allocated using cost allocation methods.

2. When costs cannot be directly attributed between organizations, cost causation factors should be developed that relate to the costs being allocated.
3. If costs are general in nature that do not relate to development of cost causation ratios, general allocation ratios should be developed to allocate the common costs.

As required by Part 64.901, costs that may be directly assigned to regulated or non-regulated operations must be assigned to that activity wherever possible, therefore, costs that can be directly assigned to CGT or TCT should be assigned to that entity. Costs that are incurred by either the CGT or TCT organization should be recorded in that entities accounting records and should not be subject to an allocation between the entities as practiced by TCT.

Pursuant to Part 64.901, when costs cannot be directly assigned to either regulated or non-regulated operations, common costs should be allocated based upon an indirect, cost causative linkage to another cost category. Only when such a cost causative linkage cannot be found, are costs to be allocated based upon a general allocator.

**Q. Did CGT apply the Part 64.901 cost assignment and allocation principles?**

**A.** No. The Agreement calls for the allocation of "Commercial and General Expenses."[7] The Agreement defines this cost category as "Expenditures for local office commercial wages and expenses, revenue accounting wages and expenses, billing

[7] Agreement, Section 6.A., p.5. The category, "Commercial and General Expenses" does not appear as an expense category in the FCC Chart of Accounts. In practice, CGT has associated these costs with the Customer Operations Expense and Corporate Operations Expense designation.

wages and expenses, general accounting expense and relief and pension expenses (including payroll tax and employee benefit expenses). The Agreement states (page five) that these costs are to be allocated on the basis of the average gross fixed assets plus revenues of CG to the total average gross fixed assets plus revenues of all companies managed by TC.

CGT initially records these costs on a direct assignment basis where possible; however, it then performs an allocation based upon the directly assigned costs at year end, essentially allocating all customer and corporate operations costs (except legal and audit fee costs), subsuming the original process of directly assigning these costs between the two entities. Thus, CGT is not complying with the direct assignment requirements of Part 64.901.

**Q. Why does Staff disagree with the allocation methodology outlined in the Agreement?**

**A.** The majority of the costs defined above are recorded in Accounts 66xx and 67xx, Customer Operations Expense and Corporate Operations Expense, respectively, and are comprised of internal labor, financial and regulatory consulting services and billing services. As previously stated, the Company's response to DR 147 states that TCT employees performing billing and customer service functions record time to either the TCT or CGT business units based upon actual work performed. Further, company-specific invoices for financial, regulatory and billing services, provided by third party vendors, are available. Since Part 64.901 requires direct cost attribution prior to cost allocation, it is not only unnecessary, but also inappropriate, to allocate costs between the two entities.

With the exception of audit fees and certain legal costs, CGT and TCT allocated a substantial portion of general and administrative costs that are directly attributable to either CGT or TCT. CGT and TCT improperly allocate costs that are specifically identifiable and incurred by either CGT or TCT. Staff has directly assigned these costs to either the CGT or TCT entity, thereby reducing the common costs that are allocated between the two organizations.

**Q. Please discuss the second concern Staff has with the Agreement.**

**A.** The Agreement calls for the development of a single allocation ratio that shall be applied to "Commercial and General Expenses." The allocation ratio is calculated as the sum of gross fixed assets and revenues of CGT to the total fixed assets of TCT (defined as the entire TCT entity, including CGT).[8]

**Q. Why does Staff take exception to this methodology?**

**A.** Staff's primary concern is with the mechanics used by CGT in developing the single ratio. Rather than averaging the ratio of CGT fixed assets to total TCT fixed assets with the ratio of CGT revenue to total TCT revenue, CGT has instead summed fixed asset amounts with revenue amounts in developing a single ratio. The practical effect of this method is that the ratios are a hodgepodge of assets and revenues. Since the dollar amount of fixed assets are substantially greater than that of revenues, the result

[8] Id.

is that the single ratio is heavily weighted toward the ratio of fixed assets. Based upon fourth quarter 2003 data, the allocation ratio is comprised of 86% fixed assets and 14% revenues. In other words, since plant amounts are approximately six times the revenue amounts incorporated into the ratio, the level of plant of the two respective entities dominates the result.

The summation of plant dollars with revenue dollars in the development of a single allocation ratio is inappropriate and does not produce a meaningful, rationale basis upon which to allocate costs. While each of the allocation inputs (fixed assets and revenues) has some degree of merit on a stand-alone basis, the summation of the inputs produces an illogical product.

A further flaw in the applicant's methodology in allocating costs between entities is that it doesn't allocate any of the common costs to non-regulated operations. This results in a subsidy for these non-regulated services at the expense of Kansans incurring the KUSF subsidy. All operations, regulated and non-regulated, must share in the burden of these common costs. Staff has given proper recognition to the allocation of common costs to non-regulated operations through the development of the labor allocation ratio, as shown on Workpaper IS 6. This results in approximately $44,031 of the total common costs being allocated to non-regulated operations.

**Q. Has Staff adopted the average of the two allocation ratios in the assignment of common costs between CGT and TCT?**

**A.** No. Staff has examined the nature of residual corporate operations expenses that cannot be specifically identified with a given entity. Rather than the utilizing a common or general allocation ratio as called for in the Agreement, Staff recommends that an allocation ratio that is causally related to the character of the costs to be allocated is superior to the use of a general allocation ratio and further is required under Part 64.901. The majority of residual corporation operations expenses to be allocated are comprised of executive and administrative labor. Therefore, Staff recommends the use of an allocation ratio comprised of the direct labor of CGT to the total direct labor of TCT (including CGT). This allocation ratio has a logical cost relationship with the common costs subject to allocation. The "common" labor representing the majority of common costs includes executive management responsible for the supervision of employees directly charging their time to either CGT or TCT. Given this supervisory relationship, it follows that the direct costs incurred by CGT and TCT represent an appropriate basis to allocate supervisory labor.

**Q. Please discuss CGT's organizational structure and how the impact the organizational structure has on CGT cost allocations.**

**A.** CGT has only four employees. These employees provide engineering and field technical functions. Other administrative tasks, including accounting, management, customer service, billing, and other administrative functions, are provided by TCT employees. CGT's four employees charge time exclusively to CGT. TCT employees charge time to CGT based upon positive time reporting. Certain executive employees charge no time directly to CGT and instead their time and associated costs are allocated between the two entities.

**Q. Is there any additional issue you'd like to address regarding the Agreement?**

**A.** Yes. The Agreement states TCT "shall advise and assist CG in matters involving the preparation and development of construction and operating budgets, cash and cost forecasts and budgetary controls."[9] Despite the requirement in the Agreement that budgets will be prepared, CGT does not have an operating budget, as stated in CGT's response to DR 95, attached.

**Q. Does Staff have any recommendations regarding the absence of a budget for CGT?**

**A.** Yes. A budget is a basic financial tool used to control costs. Given the significance of subsidy requested by CGT, the public interest requires that capital and operating budgets be developed by CGT. Staff recommends that the Commission order CGT to complete an operating and a capital expenditure budget on an annual basis. Upon completion of this budget for 2005, the CGT general manager should notify the Commission by December 31, 2004 that such budgets have been developed and approved by the Board.

**Q. Please discuss Staff Adjustment IS 7**

**A.** Staff Adjustment IS 7 reduces Property Tax Expense (Account 7240.1) by $82,520 on a total company basis or $57,936 on an intrastate basis as shown on Workpaper IS 7.

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[9] Agreement, Section 3, pp. 3-4.

This adjustment is necessary to eliminate proposed cost increases that are neither known nor measurable, and to eliminate property taxes associated with non-regulated operations.

**Q. How has CGT calculated this adjustment?**

**A.** CGT calculated the increase in property taxes, based on the ratio of its increase in net plant in 2003 compared with 2002 plant balances. However, this simplistic approach does not meet the known and measurable standard necessary for inclusion in the revenue requirement. Actual property tax invoices are not known until the fall of the year, upon mailing by county treasurers. Thus Staff is not in receipt of the actual invoices supporting the estimated increase in property tax incorporated into CGT IS 5. Once invoices are submitted to taxable entities, one-half of the corresponding payments are due in December, while the other half is due in the middle of the following year. Further, it is important to note that property taxes are not simply based upon changes in plant investment. Taxing authorities also evaluate net income in establishing assessed value.

In addition, CGT's response to DR 50, attached, shows the Company has significantly overestimated its property tax expense in each of the past two years. Each year, a property tax accrual is established, based upon the estimated property tax expense for the upcoming year. In 2002, CGT accrued $6,500 in monthly property taxes, equating to an estimated annual expense of $78,000. The actual 2002 liability of $42,974 was significantly less than the earlier estimated amount. Likewise, in

2003 CGT again accrued $6,500 in monthly property tax expense for an estimated annual cost of $78,000. However, the actual cost was $49,575. Thus, the Commission should view CGT's estimated 2004 property tax expense with skepticism.

CGT's response to DR 101, attached, provides the details of CGT's successful appeal of its property tax assessment. As shown in this response, CGT's assessment was reduced from $2 million to $1.025 million as a result of its appeal, further highlighting the uncertainty over the actual 2004 property tax obligation until final assessments are determined and actual county invoices are prepared.

**Q. How did Staff compute the adjustment?**

**A.** First, Staff incorporated the 2003 property tax expense as the pro-forma level of property tax expense to include in this proceeding. The 2003 property tax exceeds the test period property tax expense by $6,601 and it reflects a known and measurable change to the test year expense. The 2003 property tax amount is then reduced by the portion related to non-regulated long distance operations ($7,232). This amount, as shown on Workpaper IS-7.1, was determined through a review of CGT's property tax invoices, provided in response to DR 50, attached. Elimination of property taxes associated with non-regulated operations is necessary to ensure KUSF subsidies are not recovered associated with non-regulated operations. The resulting adjustment is the difference between the 2003 property tax expense associated with regulated operations and CGT's pro-forma tax expense as incorporated in CGT IS 8.

**Q. Please continue with an explanation of Staff Adjustment IS 8**

**A.** Staff Adjustment IS-8 reduces total company general support expenses by $29,612, or $20,930 on an intrastate basis as shown on Workpaper IS-8. This adjustment is necessary to properly reflect the allocation of TCT headquarters and warehouse costs to CGT. CGT quantified the common costs, then allocated such costs to TCT based upon the fourth quarter allocation ratio as described earlier in Staff Adjustment IS 6. Staff believes there are two flaws in CGT's calculation. First, CGT neglects to allocate any of these common costs to non-regulated operations. The lack of assignment of the common building costs to non-regulated operations is inconsistent with FCC cost allocation rules and, absent correction, would represent an undue burden on KUSF subsidy payers. Secondly, Staff allocates the total common costs to CGT regulated payroll based upon the ratio of direct regulated payroll of CGT to total TCT direct payroll (excluding common payroll) as shown in Workpaper IS 6-2.

**Q. Does Staff have any other concerns with CGT's use of TCT's headquarters and warehouse facilities?**

**A.** Yes. This is an affiliate transaction and as such should be set forth in a written agreement between the parties. This transaction began in October 2003 and to date, no written agreement has been prepared to set forth the terms, conditions and pricing of the transaction.

**Q. Has the Commission recently addressed issues such as this where affiliate transactions were not supported by written agreements?**

A. Yes. In the S&T Telephone audit in Docket No. 02-S&TT-390-AUD, the Commission directed S&T to reduce to writing its agreements with affiliates, particularly those agreements regarding the leasing of equipment and floor space.[10]

**Q. Please continue with an explanation of Staff Adjustment IS 9.**

A. Staff Adjustment IS 9 corrects the depreciation expense attributed to CGT in this filing, resulting in a reduction to total company depreciation expense of $7,963, or $5,179 on an intrastate basis. CGT acknowledged, in its response to DR 185, attached, that it failed to transfer an appropriate amount of depreciation expense in the filing.

**Q. Please continue with an explanation of Staff Adjustment IS 10.**

A. Staff Adjustment IS 9 decreases Corporate Operations Expense ($2,103) as shown on Workpaper IS 10. This adjustment is the estimated true-up necessary to include the regulatory costs associated with this investigation. This adjustment will be trued-up to actual costs at the end of the proceeding upon submission of invoices by CGT.

**Income Taxes**

**Q. Please identify the adjustments Staff is recommending relating to CGT income tax expense.**

[10] See Order dated October 15, 2002, p. 25.

**A.** Staff Adjustment IS 11 increases income tax expense by eliminating the negative pro-forma negative income tax expense of ($220,326) on a total company basis and an intrastate basis as shown on Workpaper IS 11. Staff Adjustment RB 1 increases rate base $483,285 on a total company basis, or $346,984 on an intrastate basis in Staff Adjustment RB-1. Staff is recommending a zero allowance for ADIT liability as a rate base offset. These two items are linked; thus, if the Commission rejects Staff's recommendation of a zero allowance for income taxes, it should also reinstate CGT's ADIT balance.

**Q. If the adjustment eliminates CGT's collection of income taxes from the revenue requirement, why does the adjustment actually increase income tax expense?**

**A.** Staff wishes to make clear that while the adjustment increases normalized taxes, it also eliminates the tax gross-up computation that determines the total revenue requirement based upon the net operating income deficiency. Thus, the true impact of the adjustment must be considered based upon the sum of the adjustment along with the impact of the tax gross-up. Based upon the remainder of Staff's adjustments the total impact on CGT's revenue requirement from this adjustment is a reduction of $284,110, which incorporates the adjustment to eliminate the negative expense, the elimination of the tax gross-up calculation and the elimination of the ADIT rate base.

**Q. What is Staff's rationale for eliminating CGT's taxes from the revenue requirement?**

A. The KUSF subsidy CGT receives should be based on the most cost efficient operations as can reasonably be provided by CGT. In addition, to be as clear as possible, while the calculation and treatment of income taxes are discussed in this testimony, Staff is not asserting that there is an issue regarding the calculation of taxes. The issue before the Commission is whether or not a cost should be disallowed due to the cost not being the most cost efficient option available. The cost in questions just happens to be income taxes. More specifically, Staff's rationale is as follows:

1. CGT's status as a taxable entity is avoidable.
2. Since CGT's status as a taxable entity is avoidable, Staff believes that it is not known how long CGT will remain a taxable entity. Staff's belief is based on the interplay of several financial incentives as well as the history of two other rural LEC's acquisition of assets through the use of wholly owned taxable subsidiaries.
3. The elimination of taxes from CGT's revenue requirement does not harm CGT financially in the short-term since it is not currently paying actual taxes due to ** **.

Each of these issues will be discussed in more detail below. In addition, as stated previously, a proposed reporting requirement will also be discussed in more detail.

***CGT'S status as a taxable entity is avoidable***

**Q. What is Staff's primary reason for determining that CGT's taxable status is avoidable?**

**A.** Staff's primary reason for determining that CGT's taxable status is avoidable is due to the fact that CGT's parent company, TCT, is a member-owned cooperative and, therefore a tax-exempt entity. TCT, as the parent company, owns 100% of CGT's stock and has complete control over CGT. In addition, TCT's, board of directors is also CGT's board of directors. Therefore, TCT has the option, if it so chooses, to make CGT tax-exempt by making it either a stand-alone cooperative or by merging CGT's assets into TCT. It is Staff's assertion that making CGT a tax-exempt entity is the most cost effective option available to TCT.

**Q. Please explain why Staff believes making CGT a tax-exempt entity is the most cost effective option available to TCT.**

**A.** Staff does not believe that incurring an *avoidable* material expense, such as income taxes, to be the most cost effective option available to TCT as the parent company in the long-term.[11] While TCT has the discretion to choose among the options available to it, the Commission likewise has the discretion to review the options available to TCT and determine whether the utility made a prudent choice in determining which option is the most cost effective. Staff asserts that clearly, between the options of paying taxes or not paying taxes, not paying taxes is the most cost effective option available.

**Q. Please differentiate what makes the CGT tax issue different from other, typical "prudent" cost issues presented to the Commission.**

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[11] Staff notes that maintaining CGT's taxable status cannot be the most cost effective option in the *long-term*. Staff will discuss later why there is a short-term incentive that makes maintaining CGT's taxable status cost effective.

**A.** The primary differentiation is the type of choice available to TCT. The choice between a "no cost" option and a material cost (in income taxes) option is a prudence issue, between the most cost effective options available. In other words, the typical prudence issue requires an evaluation of the *actual* costs associated with the option selected versus the *actual* costs associated with the other options available. Typical prudence issues are difficult to analyze since each option available to management has it own set of variables and the lowest cost option may not always be the best option available to management. For example, management may determine that it is better to select a more expensive alternative for a product or service based on its belief that the more expensive option provides a better product or service. It is for this reason that management is typically allowed a great deal of discretion in its selection of options. However, the tax issue before the Commission involves the complete avoidance of a tax expense versus the payment of taxes. Moreover, as will be discussed later, CGT has yet to provide to Staff any significant tax or other economic benefits associated with TCT's choice to maintain CGT as a taxable entity.

**Q. Have other tax-exempt rural LEC's acquired regulated assets utilizing a taxable entity to acquire the assets?**

**A.** Yes, there are two examples. They are as follows:

1. S&T Telephone Cooperative Association, which is a member-owned cooperative, purchased the Dighton exchange on December 18, 1995 (Docket No. 95-STDT-433-COC). In acquiring the Dighton exchange, S&T created a new, wholly owned subsidiary, S&T Dighton (STD) which was a

taxable C-corporation. On January 14, 1998, S&T requested supplemental KUSF support for both S&T and STD. On May 13, 1998, the Commission issued an order that increased the KUSF support for both S&T and STD in Docket No. 98-S&TT-450-MIS. On May 13, 1998, S&T's board of directors voted to merge S&T with STD. On July 21, 1998, S&T filed with the Commission an application for Commission approval to merge S&T with STD. An order approving the merger was issued September 28, 1998 in Docket No. 99-S&TT-041-MER. The obvious result of the merger was that STD became tax-exempt when it was effectively dissolved and its assets were rolled into S&T. The taxable entity STD only existed for approximately 3 years.

2. South Central Telephone (South Central), a member-owned cooperative, purchased the Kiowa exchange in 1994 (Docket Nos. 94-USCT-387-CCS and 94-SCKT-388-COC). In acquiring the Kiowa exchange, South Central created a new wholly owned subsidiary, South Central Telecom of Kiowa (SCTK) that was a taxable C-corporation. On March 1, 2002, South Central filed with the Commission an application for approval to merge SCTK. An order approving the merger was issued April 30, 2002 in Docket Nos. 02-SCNT-675-CXB and 02-SCKT-676-CCS. The obvious result of the merger between SCTK and South Central is that SCTK became tax-exempt when it was effectively dissolved and its assets were rolled into South Central. The taxable entity SCTK only existed for approximately 8 years.

**Q. How are the examples of the two other tax-exempt LEC's acquisitions relevant to this proceeding?**

**A.** Staff believes that the previously discussed examples provide a clear indication of what can be reasonably expected to occur with CGT and TCT. That is, any cost effective economic rationale for creating or maintaining a taxable entity by a tax-exempt parent is short-term. Based on the discovery in this docket, Staff believes each of the examples discussed above had the same short-term financial incentive as TCT does now.

**Q. Please discuss whether Staff sought to determine whether any impediments to the designation of a tax-exempt status for CGT exist.**

**A.** Staff issued discovery to determine whether there were any legal or operational impediments to formation of a stand-alone tax-exempt status for CGT. Attached is DRs 124, 153, 154, 155, 160, 183, 184,199, 200 and 215, issued by Staff related to the inclusion of an income tax expense component in this proceeding. As indicated in DR 184, CGT failed to identify any legal impediments to formation of a tax-exempt entity.

DR 153 provides CGT's rationale for not pursuing tax-exempt status. However, while the response purports to indicate why CGT has not been merged into TCT, it fails to address the prospects that CGT could be established as a stand-alone member owned (and tax exempt) entity. Staff issued DR 184 to determine why CGT has not been established as a stand-alone member owned entity. CGT declined to offer any rationale supporting the continuation of CGT as a taxable entity.

**Q. Please discuss the response contained in DR 153, outlining the reasons CGT has not been merged with TCT.**

**A.** CGT provides several reasons purporting to explain why CGT has not been established as a tax-exempt entity.

a. Combining CGT into TCT would result in dilution of equity and capital credit distributions for TCT members.

b. TCT board control would be relinquished as a result of formation of CGT as a member owned cooperative.

c. A stand-alone TCT entity would minimize service disruptions.

d. Accurately track investment and expenses.

Staff does not find these reasons compelling for maintaining the status quo, essentially requiring significant subsidies from the KUSF for the income tax expense component of CGT's revenue requirement.

**Q. Please discuss how you arrived at this conclusion.**

**A.** Staff agrees with CGT's conclusion that merging the two entities would result in an initial dilution of TCT member equity. This dilution would result from CGT's relatively thin level of equity, thus the level of debt per CGT customer is much greater than the current debt per TCT member. If the two entities were merged into one organization, earnings per TCT member may decline due to the relatively higher interest costs applicable to the existing CGT debt on a per customer basis.

**Q. If Staff agrees with CGT's conclusion that a merger of the two entities could result in dilution of equity for TCT members, why is this conclusion insufficient justification for maintaining CGT's taxable?**

**A.** Essentially, while Staff agrees with CGT's conclusion that a merger of the two entities could result in dilution of equity for TCT members, CGT's conclusion fails to address the implications from a stand-alone CGT member owned system scenario. The stand-alone member owned system would continue to be affiliated with TCT to maintain operational and management synergies between the two entities. The consideration of equity dilution for TCT members is certainly an issue with a prospective TCT/CGT merger. However, equity dilution is not a consideration if CGT becomes a stand-alone member owned system. In this situation, TCT margins would be credited to TCT members, and CGT margins would be credited to CGT members. It is important to note that TCT has not injected any equity into the CGT since the acquisition. DR 154, attached. Further, TCT members are not liable for CGT debt, nor are any TCT assets collateralized within the CGT debt agreements. DR 155, attached. Therefore, TCT members have not placed substantial financial resources at risk justifying a continued financial interest in CGT profits.

**Q. Do you believe service disruptions would occur as a result of a stand-alone tax-exempt election by CGT?**

**A.** No. Establishing CGT as a stand-alone entity for tax purposes need not result in the loss of operational synergies now enjoyed by both entities. The two entities are currently separated for IRS reporting purposes and they could continue to be reported separately if CGT elected a tax-exempt status. Such an election should have no impact on the provision of quality service to CGT customers.

**Q. Do you believe CGT would no longer be able to accurately track investment and expenses subsequent to a tax-exempt election as argued by CGT?**

**A.** No. There is no basis to indicate that the integrity of CGT's accounting records would be impacted by a stand-alone tax election. CGT books and records could be maintained in the same manner with a tax-exempt election as they are today.

**Q. Please discuss the second issue cited by CGT as justification for not establishing CGT as a tax-exempt entity.**

**A.** CGT indicates a tax-exempt election by CGT would require restructuring of the board and cites this as a detriment to achieving tax-exempt status. Staff agrees that the TCT board would be required to relinquish some control over CGT in the event CGT became a tax-exempt entity. Reluctance by the TCT board of directors to relinquish control over CGT operations should not translate to higher subsidy payments by KUSF contributors.

**Q. You noted earlier in your testimony that, since CGT's status as a taxable entity is avoidable, it is not known how long CGT will remain a taxable entity. Please elaborate.**

**A.** There are at least three reasons that Staff believes that it is not known how long CGT will remain a taxable entity. First, CGT's tax status is avoidable since the parent company, TCT, is a tax-exempt entity and can elect to change CGT's tax status. Therefore, the timing of a change to CGT's tax status is discretionary to TCT. Second, other tax-exempt rural LEC's have changed the tax status of wholly owned C-corporations by merging the assets of the taxable entity into the tax-exempt organization. Third, Staff has identified a financial incentive that, in Staff's opinion, indicates TCT has a no incentive to change CGT's tax status in the short-term and every incentive to change CGT's tax status in the long-term. The short-term disincentive and long-term incentive are created by the interplay of how taxes are treated for regulatory purposes, how actual taxes payable to the IRS are determined, and how federal and state subsidies are derived.

**Q. You just indicated that TCT has no incentive to elect to change CGT's tax status to become a tax-exempt entity in the short-term. Please explain how you arrived at that conclusion.**

**A.** In order to explain, it is important to understand the method used to determine income taxes for ratemaking purposes (contrasted with actual payment of income taxes) and how the timing of a potential tax-exempt election would impact CGT's revenue stream. After I contrast income tax expense incorporated into the revenue requirement with actual income tax payments, I will explain why CGT has an incentive in the short term to maintain its tax-exempt status.

**Q. Please begin with an explanation of how income taxes are determined for ratemaking purposes.**

**A.** For ratemaking purposes, income tax expense is based on the regulatory determined level of equity, return on equity, interest expense, operating revenue and operating expense components contained in the utility's revenue requirement. The beginning point for determining each of these elements is the utility's books and records, presumably consistent with generally accepted accounting principles (GAAP). Adjustments to utility accounting records for purposes of determining revenue requirements are made to reflect normalized and annualized level of operating expenses and revenues. An example of a normalization adjustment would be to reduce operating expenses due to one-time events such as the write-off of WorldCom accounts receivable. An example of an annualization adjustment would be the recognition of an annual level of payroll costs for wage increases granted in the middle of the test period. In addition, adjustments may be made to test period operations to reflect adjustments due to prudence.

Income tax expense is computed for ratemaking purposes based upon adjusted test period operations. In addition, once a net operating income deficiency is determined, pro-forma income taxes are computed to "gross up" the deficiency for income taxes. In other words, to permit the utility an opportunity to earn its net operating income deficiency, it must also recover the necessary revenue to compensate it for incremental income tax expense associated with the revenue increase.

**Q. How does income tax expense incorporated into the revenue requirement differ conceptually from income taxes actually paid to federal and state tax authorities?**

**A.** Income tax expense per book is governed by pronouncements from the Financial Accounting Standards Board (FASB), otherwise referred to as GAAP. Income taxes actually paid are determined by federal and state tax codes. There are a number of differences between the income tax provision pursuant to GAAP and actual taxes paid in a given year. These differences may be categorized as permanent differences and temporary differences. An example of a permanent difference is that allowance for funds used during construction (AFUDC) is required to be capitalized and depreciated under GAAP, while capitalization of AFUDC (and corresponding depreciation) is not permitted under the tax code. An example of a temporary difference is the respective rate of depreciation permitted under the tax code versus that recorded under GAAP. While there are a number of temporary differences, I will focus on accelerated tax depreciation versus book depreciation in this discussion as this individual element is clearly the most significant temporary difference potentially leading to a dramatic difference between the actual taxes paid in a given period with the income tax expense reflected in financial statements.

With respect to temporary timing differences other than accelerated tax depreciation, regulators have the discretion to compute income tax expense for ratemaking purposes by "flowing through" the benefits of the temporary timing difference, or "normalizing" the differences by reflecting income tax expense based entirely on "booked" revenues and expenses. This Commission has generally adopted the full normalization method of computing income tax expense for ratemaking purposes. Normalization of accelerated tax depreciation is required by the Internal Revenue Code (tax code). Any regulatory agency flowing through the benefits of accelerated tax depreciation to ratepayers may result in the IRS rescinding the accelerated tax depreciation deduction for the utility.

It is also import to recognize that the difference between income tax expense per books and income taxes paid (or current income taxes) should be recognized in the ADIT. When income tax expense per books is greater than income tax payments, the liability should be credited to reflect the obligation of the utility to make future cash outlays for the expense reported in the current period. Likewise the reverse is true when income tax payments are greater than per book income tax expense. In these situations the account is debited (reduced) to recognize the reduction of the liability to the extent tax payments exceeds income tax expense for a given period.

The ADIT balance is reflected as an offset to rate base (or as cost free capital in the capital structure) reflecting amounts paid by ratepayers (income tax expense) in excess of actual tax payments. The ADIT balance represents cost free capital to the utility (often significant) and therefore must be reflected in the revenue requirement computation.

As its name implies temporary tax/timing differences turn around or reverse themselves such that over time the tax expense deductions equal the book expense deductions. However, the timing of such deductions can have significant impacts on the cash flow of a utility.

**Q. Earlier you mentioned that depreciation expense is the most significant book/tax timing difference. Please explain the implications from this difference on the cash flow of the utility.**

**A.** The tax code permits an accelerated depreciation deduction in computing taxable income. Conversely, the book depreciation expense is based upon the estimated useful life of the asset, including costs of removal and salvage value. As its name implies, accelerated tax depreciation results in higher depreciation deductions in the early part of the asset life, resulting in a reduced level of taxable income, whereas book depreciation is generally computed on a straight-line basis resulting in equal increments of depreciation expense over the life of an asset. Given that CGT has installed nearly $11 million in assets over the past two years, the impact of accelerated tax depreciation is significant relative to book depreciation. Actual tax payments will lag tax expense recoveries for ratemaking purposes during the early life of these assets as the accelerated tax depreciation exceeds book depreciation, resulting in a lower level of taxable income.

CGT currently has approximately **

**. Since CGT's collection of income tax expense in the revenue requirement exceeds actual tax payments in the near term, CGT has a disincentive to make a tax-exempt election since it is receiving more revenues that it is paying in expenses.

The fact that CGT has ** **, coupled with the benefits of accelerated tax depreciation make it unlikely that CGT would actually be paying any taxes, even under its current taxably status, until the year 2005 and quite likely not until the year 2006. Given CGT's tax status, TCT may defer the election of a tax-exempt status for CGT until such time as it begins to incur a current tax liability in the year 2005 or beyond.

Further, at such time as CGT actually begins to pay taxes it would have an opportunity to request recovery of this cash outlay if it can justify why continuation of CGT's taxable status is justified. Such a justification has not been made in this case.

**Q. Is there other evidence that CGT may not be paying taxes in the near future?**

[12] **$601 Thousand of Operating Losses as identified in Confidential DR 23, multiplied by an estimated effective federal and state Income Tax rate of 40% equals approximately $240 Thousand.

**A.** Yes. **

**

**Q. Could you please provide an example of the cash flow benefits accruing to CGT from maintaining its tax status?**

**A.** Yes. For example, the 2003 difference between accelerated tax depreciation and book depreciation was ** ** as shown in the chart below. The excess of tax depreciation over book depreciation results in an increased level of book income over taxable income. Revenue requirements are determined based upon "book" tax expense, thus the higher book income results in an increased tax expense per books relative to taxes actually paid. In this example, the income tax expense in excess of taxes actually paid is ** **. While there are other book and tax timing differences, depreciation represents by far the single largest reconciling item.[13]

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[13] It is important to note that book and tax depreciation differences "turn around" or reverse themselves over time such that book depreciation may exceed tax depreciation. However, it takes a number of years before such a turnaround point and until such point is reached there is a significant cash flow benefit to the utility accruing to shareholders. This cash flow benefit generally manifests itself as increased ADIT used to reduce rate base.

| Description | Per Books | Per Tax Return | Source |
|---|---|---|---|
| 2003 Depreciation Expense | $746,232 1) | **$ ** 2) | 1) KCC Annual Report/ 2) 2003 Tax Return |
| Difference: Book Income in Excess of Taxable Income | ** ** | | |
| State Tax Rate | 7.35% | | |
| State Income Tax Expense | | **$ ** | |
| Federal Tax Rate | 34% | | |
| Federal Income Tax Expense | | **$ ** | Book Income less State Income Tax Expense |
| Excess Income Tax Expense over Taxes Paid | | **$ ** | |

**Q. Is there another reason CGT lacks the incentive to make a tax-exempt election in the short term?**

**A.** Yes. CGT could reasonably have anticipated that if it had elected to become a tax-exempt entity prior to submitting its KUSF application (or while the application is pending), the Commission would have rejected any attempt to include income tax expense in the revenue requirement. To the extent CGT has considered a tax-exempt election it has every incentive to delay that decision until its KUSF application is finalized, thus retaining the opportunity to collect an income tax component within its

KUSF subsidy that would not be incurred under a tax-exempt status. Staff recommends the Commission carefully consider the CGT incentives relative to this issue and the negative implications of such incentives on the other stakeholder in this proceeding, KUSF contributors.

**Q. Earlier you indicated that elimination of CGT's ADIT balance would be offered as a corresponding recommendation to the adjustment to eliminate CGT's allowance for income taxes. Please explain why the elimination of ADIT is necessary in conjunction with the adjustment to eliminate CGT income taxes.**

**A.** ADIT exists because CGT is a taxable entity. If CGT were a tax-exempt entity, it would not have deferred taxes, therefore in conjunction with the elimination of the income tax component of CGT for ratemaking purposes the ADIT balance must also be eliminated.

*The elimination of taxes from CGT's revenue requirement does not harm CGT financially in the short-term*

**Q. Please explain why CGT is not harmed in the short-term if taxes are disallowed in the current docket.**

**A.** As is clearly outlined above, CGT currently has ** **. Therefore, CGT has no cash outlays to the federal government in the short-term. Since CGT does not have any cash outlays, the disallowance of taxes in the current docket does not create any financial harm to CGT.

**Q. If taxes are disallowed in the current docket, will CGT be financially impacted ** **?**

**A.** No. If CGT remains a taxable entity, once the ** **, CGT will be paying income taxes without a tax allowance included in the KUSF subsidy as determined in this docket. However, Staff believes that if CGT's tax status remains unchanged and it starts to pay actual taxes it will have the option of requesting additional KUSF support. In addition, while Staff believes that TCT will have a strong incentive to change CGT's tax status at such time as CGT begins to pay actual taxes, should TCT choose not to change CGT's tax status, TCT should be prepared to provide a comprehensive explanation and substantially support why keeping CGT a taxable entity is the most cost effective option available.

**Reporting Requirement**

**Q. Does Staff have any suggestions for reporting requirements related to this tax disallowance issue?**

**A.** Yes. Staff recommends that CGT be ordered to make a filing with the Commission that provides notice when CGT's tax status has changed. The filing should be made within 10 days of the completion of CGT's tax status change. The purpose of the notice is to inform the Commission and Staff of a significant change to CGT's (and, of course, TCT's) operations. Staff's recommendation is not based on whether the Commission agrees with Staff's disallowance of CGT's tax expense. Rather, Staff's recommendation is that the filing should be made regardless of the Commission's decision on this matter.

## GAIN ON THE SALE OF PLANT ASSETS

**Q. Do you have any other issues you wish to discuss?**

**A.** Yes. During the course of Staff's review it became known that CGT had experienced a gain on the sale of its prior building in the amount of $36,863.

**Q. What are the regulatory implications of the gain on the sale enjoyed by CGT?**

**A.** The Commission has previously found that ratepayers are entitled to share in gains enjoyed by utilities, resulting in corresponding rate case adjustments. The first KCC case of which I am aware in which this issue was addressed involved the sale of a building by Kansas Power and Light. Upon appeal the Court of Appeals upheld the original KCC decision that determined shareholders were not entitled to automatic retention of any gain on the sale of utility assets.[14] However, the Court overturned the portion of the KCC decision in which 100% of the gain was flowed through to ratepayers and instead set forth a list of factors (not mutually exclusive) for the Commission to consider in allocating the benefits of the gain between ratepayers and shareholders.

**Q. Is Staff proposing an adjustment to allocate a portion of the gain for the benefit of KUSF payers in this proceeding?**

[14] *See* The Kansas Power and Light Company v. The State Corporation of the State of Kansas, 5 Kan. App. 2d 514 (1980).

**A.** No. Due to the fact that CGT has thus far received limited KUSF funds, it is clear that KUSF payers have provided very limited cost recovery to CGT related to the cost of the building. However, CGT ratepayers (both local and access payers) have contributed to the recovery of the cost of the building and consistent with prior Commission decisions, have a vested interest in a portion of the gain from the building sale. Because the purpose of this proceeding is to establish an appropriate level of KUSF subsidy, Staff is not proposing any assignment of the benefit from the gain on the sale to the revenue requirement established in this proceeding. However, Staff may find that allocation of asset gains is appropriate in future KUSF proceedings dependent upon the unique factual situation in that case. Further, Staff reserves the right to address the gain on the sale issue resulting from the CGT building sale in future KCC dockets.

**Q. Does this conclude your testimony?**

**A.** Yes.

## VERIFICATION

STATE OF KANSAS )
) ss:
COUNTY OF SHAWNEE )

David N. Dittemore, being duly sworn upon his oath deposes and states, that he has read and is familiar with the foregoing *Direct Testimony,* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

David N. Dittemore

David N. Dittemore
Consultant for Staff
State Corporation Commission of the
State of Kansas

SUBSCRIBED AND SWORN to before me this 25th day of June, 2004.

PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2007

Pamela J. Griffeth
Notary Public

My Appointment Expires:

# Workpaper RB-1

Adjustment to Eliminate ADIT from Rate Base

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| 1 | **Eliminate ADIT as a Reduction to Rate Base** | **$ 483,285** | **0.706813** | **$ 341,592** |

**Sources:**

Council Grove February 2, 2004 filing, Section 4

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

Attachment DND-1

# Workpaper IS 3

Adjustment for WorldCom write off

| Line No. | Description | Intrastate Separations | Intrastate Adjustment | Intrastate Adjustment |
|---|---|---|---|---|
| 1 | **State Access - CCL, Interlata (Acct. 5084)** | **$ 6,940** | **100%** | **$ 6,940** |
| 2 | **State Access - Traf Sensitive Interlata (Acct. 5084)** | **$ 21,128** | **100%** | **$ 21,128** |
| 3 | **State Access - CCL, Intralata (Acct. 5084)** | **$ 6,118** | **100%** | **$ 6,118** |
| 4 | **State Access - Traf Sensitive, Intralata (Acct. 5084)** | **$ 18,698** | **100%** | **$ 18,698** |
| | | **$ 52,884** | | **$ 52,884** |

| | | |
|---|---|---|
| 5 | Total Proforma Impact to CGT Revenues from writeoff of WCOM bankruptcy | $ 26,442 |
| 6 | Adjustment Proposed by CGT | $ (26,442) |
| 7 | Net Adjustment (Increase in Revenues) | $ 52,884 |

**Sources:** Council Grove February 2, 2004 filing, Section 9
Council Grove February 2, 2004 filing, W/P IS 3
Council Grove response to DR 78

# Workpaper IS 4

SUMMARY OF ADJUSTMENTS FOR DONATIONS, CORPORATE IMAGE ADVERTISING, LOBBYING AND DUES

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| ********** | ********************************************* | ****************** | ***************** | ****************** |
| | **DONATIONS** | | | |
| 1 | **To Reverse Applicant's Adj. To Special Charges (Acct. 7370)** | **$ 828** | **0.410283** | **$ 340** |
| 2 | **Adjustment to Special Charges (Acct. 7370)** | **$ (272)** | **0.410283** | **$ (112)** |
| | **CORPORATE IMAGE ADVERTISING** | | | |
| 3 | **Total Reduction to Product Advertising (Acct. 6613)** | **$ (6,616)** | **0.616373** | **$ (4,078)** |
| 4 | **Total Reduction to External Relations (Acct. 6722)** | **$ (700)** | **0.380702** | **$ (267)** |
| 5 | **Total Reduction to Special Charges (Acct. 7370)** | **$ (375)** | **0.410283** | **$ (154)** |
| | **LOBBYING AND DUES** | | | |
| 6 | **Total Reduction to General & Administrative (Acct 6720)** | **$ (5,660)** | **0.380702** | **$ (2,155)** |
| 7 | **Total Reduction to Special Charges (Acct. 7370)** | **$ (736)** | **0.410283** | **$ (302)** |
| 8 | **Total Reduction to General & Administrative (Acct 6720)** | **$ (1,605)** | **0.380702** | **$ (611)** |
| 9 | **Total Adjustment, Donations, Corporate Image Advertising, Lobbying and Dues** | **$ (15,136)** | | **$ (7,338)** |

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

Attachment DND-1

# Workpaper IS 4.1

ADJUSTMENT FOR DONATIONS

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| ********** | ************************************************************ | ******************* | ***************** | ******************* |
| 1 | **To Reverse Applicant's Adj. To Special Charges (Acct. 7370)** | **$ 828** | **0.410283** | **$ 340** |
| 2 | **Adjustment to Special Charges (Acct. 7370)** | **$ (272)** | **0.410283** | **$ (112)** |
| | **Breakdown of Adjustment:** | | | |
| 3 | Donation for local benefit | $ 544 | | |
| 4 | Disallowed Percentage | 50.00% | | |
| 5 | **Staff Adjustment to Special Charges (Acct. 7370)** | | $ (272) | |

**Sources:**

Council Grove February 2, 2004 filing, Section 9, Schedule 1
Council Grove February 2, 2004 filing, Section 9, W/P IS 10
Council Grove 2002 and 2003 General Ledger
Council Grove response to DR 46
Council Grove response to DR 48

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

**CONFIDENTIAL**

Attachment DND-1

# Workpaper IS 4.2

ADJUSTMENT FOR CORPORATE IMAGE ADVERTISING

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| ********** | ************************************************************************ | ****************** | ***************** | ****************** |
| 1 | **Total Reduction to Product Advertising (Acct. 6613)** | **$ (6,616)** | **0.616373** | **$ (4,078)** |
| 2 | **Total Reduction to External Relations (Acct. 6722)** | **$ (700)** | **0.380702** | **$ (267)** |
| 3 | **Total Reduction to Special Charges (Acct. 7370)** | **$ (375)** | **0.410283** | **$ (154)** |
| 4 | **Total Staff Adjustment for Corporate Imaging** | **$ (7,692)** | | **$ (4,499)** |
| | **Breakdown of Adjustment:** | | | |
| | **Product Advertising (Acct. 6613)** | | | |
| 5 | Newletter costs recorded in account 6613 | $ (6,714) | | |
| 6 | Staff allowed newsletter costs | $ 97 | | |
| 7 | **Adjustment to Product Advertising (Acct. 6613)** | | $ (6,616) | |
| | **External Relations (Acct. 6722)** | | | |
| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | **Staff Adjustment to External Relations (Acct. 6722)** | | $ (700) | |
| | **Special Charges (Acct. 7370)** | | | |
| 17 | | $ (375) | | |
| 18 | **Staff Adjustment to Special Charges (Acct. 7370)** | | $ (375) | |

**Sources:**

Council Grove February 2, 2004 filing, Section 9
Council Grove 2002 and 2003 General Ledger
Council Grove response to DR 43
Council Grove response to DR 48
Council Grove response to DR 168

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

Attachment DND-1

# Workpaper IS 4.3

ADJUSTMENT FOR LOBBYING AND DUES

| Line No. | Description | | Total Company | Intrastate Separations | | Intrastate Adjustment |
|---|---|---|---|---|---|---|
| ********** | ************************************ | | ****************** | **************** | | ****************** |
| 1 | **Total Reduction to General & Administrative (Acct 6720)** | **$** | **(5,660)** | **0.380702** | **$** | **(2,155)** |
| 2 | **Total Reduction to Special Charges (Acct. 7370)** | **$** | **(736)** | **0.410283** | **$** | **(302)** |
| 3 | **Total Reduction to General & Administrative (Acct 6720)** | **$** | **(1,605)** | **0.380702** | **$** | **(611)** |
| 4 | **Total Staff Adjustment for Lobbying and Dues** | **$** | **(8,001)** | | **$** | **(3,068)** |
| | <u>**Breakdown of Adjustment:**</u> | | | | | |
| | **Lobbying Expenses (Acct. 6722)** | | | | | |
| 5 | NTCA | $ | 564 | | | |
| 6 | Lobbying Percentage | | 22.22% | | | |
| 7 | **Disallowed Portion** | | | $ (125) | | |
| 8 | KTIA | $ | 2,103 | | | |
| 9 | Lobbying Percentage | | 10.00% | | | |
| 10 | **Disallowed Portion** | | | $ (210) | | |
| 11 | SITA | $ | 3,949 | | | |
| 12 | Lobbying Percentage | | 100.00% | | | |
| 13 | Disallowed Portion | | | $ (3,949) | | |
| 14 | Rural Telecommunications Management | $ | 1,375 | | | |
| 15 | Lobbying Percentage | | 100.00% | | | |
| 16 | Disallowed Portion | | | $ (1,375) | | |
| 17 | **Total Disallowed Lobbying Expenses (Acct. 6722)** | | | $ (5,660) | | |
| 18 | **Lobbying Expenses (Acct. 7370)** | | | | | |
| 19 | Foundation for Rural Service | $ | 736 | | | |
| 20 | Lobbying Percentage | | 100.00% | | | |
| 21 | Disallowed Portion | | | $ (736) | | |
| 22 | **Total Disallowed Lobbying Expenses (Acct. 7370)** | | | $ (736) | | |
| | **Industry Dues (Acct. 6722)** | | | | | |
| 23 | NTCA | $ | 439 | | | |
| 24 | KTIA | $ | 1,893 | | | |
| 25 | SITA | $ | 878 | | | |
| 26 | Industry Dues Subject to 50% | $ | 3,210 | | | |
| 27 | Disallowed Percentage | | 50.00% | | | |
| 28 | **Disallowed Portion of Industry Dues (Acct. 6722)** | | | $ (1,605) | | |

**Sources:**

Council Grove February 2, 2004 filing, Section 9, Schedule 1
Council Grove 2002 and 2003 General Ledger
Council Grove response to DR 45
Council Grove response to DR 47
Council Grove response to DR 48
Council Grove response to DR 192
Council Grove response to DR 193

## Workpaper IS 5

Adjustment for Insurance Reimbursement

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| ************** | ******************************************************************* | ********************** | *********************** | ******************* |
| 1 | **Digital Electronic Expense (Account 6212)** | **$ 32,447** | **0.575816** | **$ 18,684** |

**Sources:**

Council Grove February 2, 2004 filing, Section 9
Council Grove February 2, 2004 filing, W/P IS 2
Council Grove response to DR 77
Council Grove response to DR 105

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

Attachment DND-1

# Workpaper IS 6

Calculation of CGT Management Fees

| Line No. | Description | | Total Company | Intrastate Separations | | Intrastate Adjustment |
|---|---|---|---|---|---|---|
| 1 | **To Adjust Directory Expense (Acct. 6620)** | $ | (4,361) | 0.835371 | $ | (3,643) |
| 2 | **To Adjust Executive and Planning Expense (Acct. 6710)** | $ | 23,017 | 0.653467 | $ | 15,041 |
| 3 | **To Adjust General and Administrative Expense (Acct. 6720)** | $ | (83,499) | 0.380702 | $ | (31,788) |
| 4 | **Total Adjustment** | $ | (64,843) | | $ | (20,390) |

| | **Customer Operations Expense** | | Amount per CGT (Reflecting Staff Adjustment IS 4) | | Amount per Staff | | Staff Adjustment |
|---|---|---|---|---|---|---|---|
| 5 | 6610: Marketing Expense | $ | 6,714 | $ | 6,714 | $ | - |
| 6 | 6620 Directory Expense | $ | 46,197 | $ | 41,836 | $ | (4,361) |
| 7 | 6630 Services Expense | $ | 277,368 | $ | 277,368 | $ | - |
| 8 | Total | $ | 330,279 | $ | 325,918 | $ | (4,361) |
| | **Corporate Operations Expense** | | | | | | |
| 9 | 6710 Executive and Planning Expense | $ | 11,119 | $ | 34,136 | $ | 23,017 |
| 10 | 6720 General and Administrative Expense | $ | 217,174 | $ | 133,675 | $ | (83,499) |
| 11 | Total | $ | 228,293 | $ | 167,811 | $ | (60,482) |

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# Workpaper IS 6.1

Summary of Staff Pro-Forma Customer Operations and Customer Support Expenses (66xx and 67xx)

| Line No. | Description | Total TCT Amount | Percentage to CGT | Net Amount to CGT | Source |
|---|---|---|---|---|---|
| | **Section I. Customer Support Expenses per CGT Application** | | | | |
| 1 | 6610: Marketing Expense | | | $ 6,714 | |
| 2 | 6620 Directory Expense | | | $ 46,197 | |
| 3 | 6630 Services Expense | | | $ 277,368 | |
| 4 | Total Customer Support Expenses per CGT Application | | | $ 330,279 | Section 9.1 |
| 5 | Less: Product Advertising - Staff Adjustment IS 4: Account 6610 | | | $ - | |
| 6 | Less: Allocation of TCT Labor Costs to Non-Regulated Operations - Account 6620 | $ 68,138 | 6.40% | $ (4,361) | TCT payroll Charged to CGT * CGT Reg/Non-Reg Allocation Ratio |
| 7 | Staff Pro-Forma CGT Customer Operations Expense (66xx) | | | | |
| 8 | 6610: Marketing Expense | | | $ 6,714 | Line 2+Line 6 |
| 9 | 6620 Directory Expense | | | $ 41,836 | Line 3+Line7 |
| 10 | 6630 Services Expense | | | $ 277,368 | Line 4 |
| 11 | Total Customer Support Expenses per CGT Application | | | $ 325,918 | |
| | **Section II. CGT Direct Charges 67xx - Regulated Only - Per Book** | | | | |
| 12 | 6710 Executive and Planning Expense | | | $ 11,119 | Section 9, CGT Application |
| 13 | 6720 General and Administrative Expense | | N/A | $ 91,411 | Section 9, CGT Application |
| 14 | Less: Corporate Image Advertising 6720 | | | $ (700) | Workpaper IS 4 |
| 15 | Less: Donations 6720 | | | $ (7,265) | Workpaper IS 4.3 |
| 16 | Less: Annual Allocation True-Up 6720 | | | $ (17,088) | CGT General Ledger |
| 17 | Subtotal CGT Direct 67xx | | | | |
| 18 | 6710 Executive and Planning Expense | | | $ 11,119 | |
| 19 | Plus CGT Adjustment IS 13 | | | $ 133,728 | |
| 20 | Adjusted Balance 6710 | | | $ 144,847 | |
| 21 | 6720 General and Administrative Expense | | | $ 66,358 | |
| 22 | SubTotal 67xx | | | $ 211,205 | |
| | **Section III. TCT Common Costs - Non Labor** | | | | |
| 23 | TCT 6720 Common Expenses - Non-Labor | $ 149,842 | | $ 149,842 | Workpaper IS 6.4 |
| 24 | Less: Allocation to Non-Reg | | 10.96% | $ (16,418) | Workpaper IS 6.2 |
| 25 | Less: Allocation to TCT | | 74.75% | $ (99,735) | Workpaper IS 6.2 |
| 26 | Subtotal 6720 Non-Labor to CGT | | | $ 33,689 | |
| | **Section IV. TCT 67xx Common Expenses - Labor** | 6710 Executive and Planning Expense | 6720 General and Administrative Expense | Total TCT Common Expenses - Labor 67xx | |
| 27 | TCT Labor to be Allocated (Acct. 67xx) | $ 102,375 | $ 149,575 | 251,950 | Workpaper IS 6.3 |
| 28 | Less: Allocation to Non-Reg @ 10.96% | $ (11,220) | $ (16,393) | $ (27,614) | Workpaper IS 6.2 |
| 29 | Less: Allocation to TCT@ 74.75% | $ (68,138) | $ (99,553) | $ (167,691) | Workpaper IS 6.2 |
| 30 | Subtotal 67xx Labor to CGT | $ 23,017 | $ 33,628 | $ 56,645 | |
| | **Section V. Summary of Staff Corporate Operations Costs** | 6710 Executive and Planning Expense | 6720 General and Administrative Expense | Total TCT Common Expenses - Labor 67xx | |
| 31 | CGT Direct Charges | $ 11,119 | $ 66,358 | $ 77,477 | |
| 32 | Common CTC Costs Allocated to CGT Regulated - Non Labor | | $ 33,689 | $ 33,689 | |
| 33 | Common CTC Costs Allocated to CGT Regulated - Labor | $ 23,017 | $ 33,628 | $ 56,645 | |
| 34 | **Total Staff Pro-forma Costs** | $ 34,136 | $ 133,675 | $ 167,811 | |

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## Workpaper IS 6.2

Calculation of Non-Reg and CGT/TCT Labor Ratios

| Line No. | Description | CGT Regulated Direct | TCT Regulated Direct | Non-Reg (66xx) | Source |
|---|---|---|---|---|---|
| | **I. Payroll Analysis** | | | | |
| | **CGT Employee Payroll** | | | | |
| 1 | | | | | DR 16 |
| 2 | | | | | " |
| 3 | | | | | " |
| 4 | Total CGT Employee Payroll | $ 109,878 | | $ 6,653 | DR 16 |
| 5 | Compensated Absences (4xxx) and On-Call Time | $ 46,789 | | $ 2,833 | |
| | **TCT Employee Payroll** | | | | |
| 6 | TCT Employees Charged to CGT | $ 60,635 | | | DR 181 |
| 7 | TCT Employees Charged to TCT | | $ 592,245 | $ 89,049 | DR 181 |
| 8 | Compensated Absences (4xxx) | $ 7,502 | $ 73,279 | $ 11,018 | Application of Comp. Absence Rate to Labor |
| 9 | Subtotals | $ 224,805 | $ 665,524 | $ 109,553 | $ 999,882 |
| 10 | Composite Allocation Ratios | **22.48%** | **66.56%** | **10.96%** | 100% |
| | **II. Summary of Non-Regulated Allocation Ratio** | | | | |
| 11 | Total Non-Regulated Payroll | | $ 109,553 | | Line 9 |
| 12 | CGT Regulated Payroll (Including TCT employees Direct Charging time to CGT | $ 224,805 | | | Line 9 |
| 13 | TCT Regulated Payroll | $ 665,524 | | | Line 9 |
| 14 | Subtotal CGT/TCT Regulated Payroll (Excluding Common) | | $ 890,329 | | |
| 15 | Total Payroll Regulated/Non-Regulated Excluding Common | | $ 999,882 | | |
| 16 | Non-Regulated Payroll Ratio | | 10.96% | | Line 11/Line 15 |
| 17 | Regulated Payroll Ratio | | 89.04% | | Line 14/Line 15 |
| | **III. Summary of Regulated Payroll Allocation Ratio** | | | | |
| 18 | CGT Regulated Payroll (Including TCT employees Direct Charging time to CGT) | $ 224,805 | | | Line 9 |
| 19 | TCT Regulated Payroll | $ 665,524 | | | Line 9 |
| 20 | Total CGT/TCT Payroll - Excluding Common | $ 890,329 | | | |
| 21 | CGT Payroll Allocation Ratio | | 25.25% | | Line 18/Line 20 |
| 22 | TCT Payroll Allocation Ratio | | 74.75% | | Line 19/Line 20 |

| Line No. | IV. Recap of CGT Employee Payroll - CGT Reg/Non-Reg Calculation | Labor per DR 16 | Allocation of Overhead and Common Costs | Totals |
|---|---|---|---|---|
| 23 | CGT Direct | $ 109,878 | $ 46,789 | $ 156,667 |
| 24 | CGT Overhead (4xxx) and 6533 (On Call Time) | $ 44,218 | $ (44,218) | $ - |
| 25 | CGT Common (67xx) | $ 5,404 | $ (5,404) | $ - |
| 26 | CGT Non-Reg (66xx) | $ 6,653 | $ 2,833 | $ 9,486 |
| 27 | Total CGT Payroll Per DR 16 | $ 166,153 | $ 0 | $ 166,153 |

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**Workpaper IS 6.3**

Analysis of TCT Labor

| | Account Distribution | | | | | |
|---|---|---|---|---|---|---|
| **Employee** | **1190 (CGT Direct)** (a) | **2003 (TCT Direct)** (b) | **4xxx (Common)** ('c) | **67xx (Common)** (d) | **All Other (TCT Direct - Reg and Non-Reg)** (e) | Total (f) |
| ************************************** | *************** | *************** | *************** | *************** | *************** | ****************** |

**Compensated Absence Loading** 12.37%

**Sources:**
Council Grove response to DR 158
Council Grove response to DR 181

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## Workpaper IS 6.4

Recap of Tri-County Non Labor Expenses subject to allocation per management agreement

| Acct. # | Account Totals | Total Non Labor Invoices Recorded in Account | Excluded Below the Line | Tri County Direct Assigned | CGT Direct Assigned | Common costs to be allocated between TCT/CGT |
|---|---|---|---|---|---|---|
| *********** | ********************** | *************************** | **************** | **************** | **************** | ******************* |
| 6612.00 | Total for test year | | | | | |
| 6613.00 | Total for test year | | | | | |
| | Total of 661x | | | | | |
| 6621.01 | Total for test year | | | | | |
| 6622.01 | Total for test year | | | | | |
| 6622.02 | Total for test year | | | | | |
| 6623.01 | Total for test year | | | | | |
| 6623.02 | Total for test year | | | | | |
| 6623.10 | Total for test year | | | | | |
| 6623.12 | Total for test year | | | | | |
| 6623.14 | Total for test year | | | | | |
| 6623.15 | Total for test year | | | | | |
| 6623.20 | Total for test year | | | | | |
| | Total for 662x | | | | | |
| 6711.01 | Total for test year | | | | | |
| 6711.02 | Total for test year | | | | | |
| | Total for 671x | | | | | |
| 6721.01 | Total for test year | | | | | |
| 6721.02 | Total for test year | | | | | |
| 6721.03 | Total for test year | | | | | |
| 6721.05 | Total for test year | | | | | |
| 6721.08 | Total for test year | | | | | |
| 6721.09 | Total for test year | | | | | |
| 6721.10 | Total for test year | | | | | |
| 6722.01 | Total for test year | | | | | |

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## Workpaper IS 6.4

Recap of Tri-County Non Labor Expenses subject to allocation per management agreement

| Acct. # | Account Totals | Total Non Labor Invoices Recorded in Account | Excluded Below the Line | Tri County Direct Assigned | CGT Direct Assigned | Common costs to be allocated between TCT/CGT |
|---|---|---|---|---|---|---|
| ************ | ************************ | ****************************** | ***************** | ***************** | ***************** | ******************** |
| 6722.02 | Total for test year | | | | | |
| 6722.05 | Total for test year | | | | | |
| 6722.06 | Total for test year | | | | | |
| 6722.07 | Total for test year | | | | | |
| 6722.08 | Total for test year | | | | | |
| 6723.04 | Total for test year | | | | | |
| 6723.07 | Total for test year | | | | | |
| 6725.00 | Total for test year | | | | | |
| 6728.14 | Total for test year | | | | | |
| 6728.17 | Total for test year | | | | | |
| 6728.50 | Total for test year | | | | | |
| 6728.70 | Total for test year | | | | | |
| | Total for 672x | | | | | |
| | Total for test year | | | | | |

**Sources:**

Council Grove response to DR 85
Council Grove response to DR 145

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Docket No. 04-CGTT-679-RTS
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Attachment DND-1

## Workpaper IS 6.4.1

Recap of Tri-County Non Labor Expenses
Account 6612: Sales Expense

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri-County Direct Assigned | CGT Direct Assigned | Common Cost to be Allocated |
|---|---|---|---|---|---|---|---|
| 6612.00 | | | | | | | |
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Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
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Attachment DND-1

## Workpaper IS 6.4.2

Recap of Tri-County Non Labor Expenses
Account 6613: Product Advertising

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Cost to be Allocated |
|---|---|---|---|---|---|---|---|
| ************* | ************ | *********************************** | *********************** | **************** | **************** | **************** | **************** |
| 6613.00 | | | | | | | |
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Attachment DND-1

## Workpaper IS 6.4.3

Recap of Tri-County Non Labor Expenses
Account 6621 and 6623: Call Completion and Customer Service

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri-County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| *********** | ************ | ********************************** | ********************** | *************** | *************** | *************** | *************** |
| 6621.01 | | | | | | | |
| 6621.01 | | | | | | | |
| 6622.01 | | | | | | | |
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| 6623.20 | | | | | | | |
| 6623.20 | | | | | | | |
| 6623.xx | | | | | | | |

## Workpaper IS 6.4.4

Recap of Tri-County Non Labor Expenses
Account 6711 Executive Expenses

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri-County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| ************ | ************ | ************************************ | ************************************ | **************** | **************** | **************** | **************** |
| 6711.01 | | | | | | | |
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## Workpaper IS 6.4.5

Recap of Tri-County Non Labor Expenses
Account 6711 Executive Expenses

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri-County Direct assigned | CGT Direct Assigned | Common Cost to be Allocated |
|---|---|---|---|---|---|---|---|
| ************ | ************ | ************************************ | ************************************ | ************** | ************** | *********** | ************** |
| 6711.02 | | | | | | | |
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Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

**CONFIDENTIAL**

Attachment DND-1

## Workpaper IS 6.4.6

Recap of Tri-County Non Labor Expenses
Account 6721 Accounting and Finance

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6721.01 | | | | | | | |
| 6721.01 | | | | | | | |
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| 6721.02 | | | | | | | |
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**CONFIDENTIAL**



## Workpaper IS 6.4.7

Recap of Tri-County Non Labor Expenses
Account 6722 External Relations

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6722.01 | | | | | | | |
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## Workpaper IS 6.4.7

Recap of Tri-County Non Labor Expenses
Account 6722 External Relations

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6722.05 | | | | | | | |
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## Workpaper IS 6.4.7

Recap of Tri-County Non Labor Expenses
Account 6722 External Relations

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6722.06 | | | | | | | |
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## Workpaper IS 6.4.8

Recap of Tri-County Non Labor Expenses
Account 6723 and 6724 Human Resources and Information Management

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri county Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6723.04 | | | | | | | |
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Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

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Attachment DND-1

## Workpaper IS 6.4.9

Recap of Tri-County Non Labor Expenses
Account 6725 Legal

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| ************ | ************ | ************************************ | ************************************ | **************** | **************** | **************** | **************** |
| 6725.00 | | | | | | | |
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Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

**CONFIDENTIAL**

Attachment DND-1

## Workpaper IS 6.4.10

Recap of Tri-County Non Labor Expenses
Account 6728 Other General and Administrative Costs

| Acct. # | Date | Invoice Description | Product Description | Excluded | Tri County Direct Assigned | CGT Direct Assigned | Common Costs to be Allocated |
|---|---|---|---|---|---|---|---|
| 6728.14 | | | | | | | |
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## Workpaper IS 7

Calculation of Pro-Forma Property Taxes

| Line No. | Description | | Total Company | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| 1 | **Staff Adjustment for Property Taxes** | $ | 82,520 | 0.702078 | $ 57,936 | |
| | **Section 1** | | | | | |
| 2 | Test Period Property Tax Expense | $ | 42,974 | | | CGT General Ledger |
| 3 | CGT Adjustment IS 8 | $ | 81,889 | | | CGT Adjustment IS 8 |
| 4 | Total CGT Pro-Forma | $ | 124,863 | | | |
| 5 | Less: 2003 Property Taxes (net of CGT LD portion) | $ | 42,343 | | | Line 9 |
| 6 | Property Tax Adjustment | $ | 82,520 | | | |
| | **Section 2** | | | | | |
| 7 | 2003 Property Taxes Per Books | $ | 49,575 | | | CGT General Ledger |
| 8 | Less: Portion related to Long Distance Operations | $ | 7,232 | | | Workpaper IS 7.1 |
| 9 | 2003 Regulated Property Taxes | $ | 42,343 | | | Line 6-7 |

Sources:

Council Grove February 2, 2004 filing, Section 9
Council Grove February 2, 2004 filing, W/P IS 8
Council Grove 2002 and 2003 general ledger
Council Grove response to DR 50
Council Grove response to DR 101
Council Grove response to DR 209

# Workpaper IS 7.1

Council Grove Property Taxes by County

| County Name | Due 12/03 | Due 5/04 | |
|---|---|---|---|
| Wabunsee | | | |
| | $ 1.53 | | * |
| | $ 2.13 | | * |
| | $ 9.21 | | |
| | $ 6.29 | $ 6.29 | |
| Total | $ 19.16 | $ 6.29 | |
| Lyon | | | |
| | $ 39.18 | $ 39.18 | * |
| | $ 0.19 | | * |
| | $ 18.13 | $ 18.13 | * |
| | $ 201.99 | $ 201.99 | |
| | | $ 1.47 | |
| | $ 102.40 | $ 102.40 | |
| | | $ 2.92 | |
| | $ 535.03 | $ 535.03 | |
| | $ 239.60 | $ 239.60 | |
| Total Lyon | $ 1,136.52 | $ 1,140.72 | |
| Morris | $ 0.64 | | |
| | $ 0.55 | | |
| | $ 8.01 | $ 8.01 | * |
| | $ 32.69 | $ 32.69 | * |
| | $ 66.31 | $ 66.31 | * |
| | $ 0.37 | | * |
| | $ 3.38 | | * |
| | $ 298.13 | $ 298.13 | * |
| | $ 0.46 | | * |
| | $ 0.09 | | * |
| | $ 0.09 | | * |
| | $ 2,800.97 | $ 2,800.97 | * |
| | $ 91.40 | $ 91.40 | * |
| | $ 143.32 | $ 143.32 | |
| | $ 2.25 | | |
| | $ 8.89 | | |
| | $ 232.64 | $ 232.64 | |
| | $ 3.19 | | |
| | $ 69.86 | $ 69.86 | |
| | $ 60.73 | $ 60.73 | |
| | $ 69.08 | $ 69.08 | |
| | $ 196.89 | $ 196.89 | |
| | $ 733.59 | $ 733.59 | |
| | $ 12.32 | $ 12.32 | |
| | $ 10.02 | $ 10.02 | |
| | $ 1,746.06 | $ 1,746.06 | |
| | $ 24.46 | $ 24.46 | * |
| | $ 39.72 | $ 39.72 | * |

## Workpaper IS 7.1

Council Grove Property Taxes by County

| County Name | Due 12/03 | Due 5/04 | |
|---|---|---|---|
| | $ 11.95 | $ 11.95 | * |
| | $ 10.39 | $ 10.39 | * |
| | $ 11.78 | $ 11.78 | * |
| | $ 33.60 | $ 33.60 | * |
| | $ 125.26 | $ 125.26 | * |
| Provided in Supplemental 209 response | $ 16,405.00 | $ 16,405.00 | |
| Total Morris | $ 23,254.09 | $ 23,234.18 | |
| Grand Total | $ 24,409.77 | $ 24,381.19 | |
| Total 2003 supporting invoices | $ 48,790.96 | | |
| * Portion Related to CGT Long Distance Operations (Unregulated) | $ 3,620.22 | $ 3,611.98 | |
| Total Unregulated | $ 7,232.20 | | |

*** Indicates Ad-Valorem due from CGT Long Distance**

**Source:**
Council Grove Response to DR 50

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

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Attachment DND-1

## Workpaper IS 8

Adjustment to Allocate TCT Headquarters and Warehouse Costs

| Line No. | | Description | Total Company | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| 1 | 6120 | **To adjust headquarter and warehouse costs** | **$ (29,612)** | **0.706813** | **$ (20,930)** | |
| | | **I. Maintenance Costs** | | | | |
| 2 | | Headquarters Building Expense | $ 82,290 | | | Data Response 171 |
| 3 | | Warehouse Building Expense | $ 25,063 | | | Data Response 171 |
| 4 | | Total | | $ 107,353 | | |
| | | **II. Property Taxes** | | | | |
| 5 | | TCT GHQ Cost | | | | Data Response 82 |
| 6 | | TCT Warehouse Cost | | | | Data Response 82 |
| 7 | | Gross TCT Headquarters/Warehouse Costs | | | | |
| | | Property Tax Rate Development | | | | |
| 8 | | 2003 Booked Property Tax Expense | $ 49,575 | | | CGT General Ledger |
| 9 | | CGT Plant 12/31/02 | $ 14,820,646 | | | Application, Section 8 |
| 10 | | Property Tax Rate | 0.3345% | | | |
| 11 | | Property Tax Applicable to GHQ and Warehouse | | $ 8,655 | | Line 4 * Line 10 |
| | | **III. Depreciation Expense** | | | | |
| 12 | | Gross TCT Headquarters/Warehouse Costs | | | | Data Response 82 |
| 13 | | Depreciation Rate | | | | |
| 14 | | Depreciation Expense on GHQ and Warehouse | | | | |
| | | **IV. Total Building Costs** | $ 245,894 | | | Lines 3+10+13 |
| 15 | | Less: Direct Assignment to Non-Regulated - 3.29% | $ (8,090) | $ 237,804 | | Line 23 |
| 16 | | Less: Allocation of Common Costs to Non-Regulated | 10.96% | $ (26,055) | | |
| 17 | | Subtotal | | $ 211,749 | | |
| 18 | | Less: Allocation of Common Costs to TCT | 74.75% | $ (158,283) | | |
| 19 | | Net Costs to CGT | | $ 53,466 | | |
| 20 | | Less: CGT Adjustment | | $ 83,078 | | |
| 21 | | Staff Adjustment IS 8 to Account 6120 | | $ (29,612) | | |
| | | Non-Regulated Direct Assignment | | | | |
| 22 | | Non-Regulated Space | 400 | | | |
| 23 | | Total Space | 12,173 | | | |
| 24 | | Non-Regulated Percentage | 3.29% | | | |

# Workpaper IS 9

ADJUSTMENT FOR DEPRECIATION

| Line No. | Description | | Total Company | Intrastate Separations | | Intrastate Adjustment |
|---|---|---|---|---|---|---|
| ********** | ****************************************************************************************** | | ******************* | ****************** | | ******************* |
| 1 | **Depreciation Expense (Acct 6560)** | **$** | **(7,963)** | **0.650429** | **$** | **(5,179)** |

**Sources:**

Council Grove February 2, 2004 filing, Section 9, schedule 1
Council Grove February 2, 2004 filing, Section 9, W/P IS7
Council Grove February 2, 2004 filing, Section 10
Council Grove response to DR 185

**CONFIDENTIAL**



## Workpaper IS 10

ADJUSTMENT FOR RATE CASE EXPENSE

| Line No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment |
|---|---|---|---|---|
| 1 | **Total Adjustment to General & Administrative (Acct. 6720)** | **$ (2,103)** | **100%** | **$ (2,103)** |

**Breakdown of Adjustment:**

| | |
|---|---|
| Total Council Grove consultants and legal | $ 81,372 |
| KCC Assessment | $ 8,111 |
| Total Rate Case Expense | $ 89,483 |
| Amortization period | 5 years |
| Per year amortization | $ 17,897 |
| Rate Case expense included in filing | $ 20,000 |
| **Staff Adjustment to Rate Case Expense (Acct. 6720)** | $ (2,103) |

**Sources:**

Council Grove February 2, 2004 filing, Section 9
Council Grove February 2, 2004 filing, Section 9 W/P IS 6
Council Grove 2002 and 2003 general ledger
Council Grove response to DR 51
Council Grove response to DR 112

Council Grove Telephone, Inc.
Docket No. 04-CGTT-679-RTS
For the Test Year Ended September 30, 2003

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Attachment DND-1

## Workpaper IS 10.1

Council Grove Rate Case Expense Detail

| | | | | |
|---|---|---|---|---|
| Company rate case expenses | | | $ | 81,372 |
| KCC Assessment | | | | |
| Commission FY 2003 Assessment | | | $ | 3,498 |
| Commission FY 2004 Assessment Maximum | | | | 4,614 |
| Commission Assessment Total | | | $ | 8,111 |
| Total Rate Case Expense | | | $ | 89,483 |
| 2003 Intrastate Revenues | $ | 768,964 | | |
| Assessment Rate | | 0.60% | | |
| Maximum Assessment for 2004 | | | $ | 4,614 |
| Assessment to Docket 04-679 for 2004 | | | $ | 4,614 |

## Workpaper IS 11

To eliminate federal and state Income Taxes

| Line No. | Description | | Total Company | Intrastate Separations | | Intrastate Adjustment |
|---|---|---|---|---|---|---|
| 1 | **To eliminate Federal Income Taxes - (Acct. 7220)** | **$** | **178,644** | **Direct** | **$** | **178,644** |
| 2 | **To eliminate State Income Taxes - (Acct. 7230)** | **$** | **41,682** | **Direct** | **$** | **41,682** |

**Sources:**

Council Grove February 2, 2004 filing, Section 9

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS



| | |
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| In the Matter of an Audit of | ) |
| Cunningham Telephone Company, Inc. | ) Docket No. 05-CNHT-020-AUD |

DIRECT TESTIMONY

OF

DAVID N. DITTEMORE

ON BEHALF OF

KANSAS CORPORATION COMMISSION STAFF

March 18, 2005

# I. INTRODUCTION

**Q. Please state your name.**

A. David N. Dittemore.

**Q. What is your occupation and business address?**

A. I am a self-employed consultant specializing in the area of public utility regulation. My business address is 8910 N. 131st E. Ave. Owasso, OK 74055

**Q. Please discuss your educational background and regulatory experience.**

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from Central Missouri State University in 1982. Starting in 1982, and through 1984, I was employed as an Accountant by Standard Oil (Indiana). I accepted a Staff position with the Kansas Corporation Commission (KCC or Commission) in 1984 and held various Staff positions while at the KCC, including Chief of Accounting and Financial Analysis. In 1995, I accepted a position as Manager of Rates with Missouri Gas Energy. In 1996, I returned to the KCC as Deputy Director of the KCC and was appointed Director of Utilities in 1997. I accepted a position with WorldCom in 1999 as Manager of Wholesale Billing Resolutions, with responsibility to resolve disputed billing issues with facilities-based and resale long distance providers. In 2000, I accepted a position as Manager of Regulatory Affairs with The Williams Companies. During my tenure with Williams, I monitored wholesale electric power issues on behalf of Williams Energy Marketing and Trading, provided research on electric regulatory activities in key states and participated in due diligence efforts designed to secure long term power supply arrangements with electric utilities. In 2003, I began my consulting practice in the field of public utility regulation. In summary, I have experience in the natural gas, telecommunication and electric industries, in addition to approximately fourteen years experience with the KCC.

**Q. On whose behalf are you appearing?**

A. I am appearing on behalf of the Commission Staff (Staff).

**Q. Have you previously testified before this Commission?**

A. Yes. I have testified on numerous occasions before the KCC and once each before the Federal Energy Regulatory Commission (FERC) and the Interstate Commerce Commission (ICC). I have also filed testimony before the Arkansas Public Service Commission, the Oklahoma Corporation Commission and the Vermont Department of Public Service.

**Q. Please describe the tasks you performed related to your testimony in this case.**

A. I obtained and reviewed the filing submitted by Cunningham Telephone Company (CTC, or Company), reviewed CTC's data request (DR) responses, and performed other procedures as necessary to obtain an understanding of the Company's filing to formulate an opinion concerning the reasonableness and appropriateness of such proposals. This included an on-site review at the Company's offices in Glen Elder, Kansas.

**Q. What issues do you address in your testimony?**

A. My direct testimony identifies and discusses areas of concern with respect to the Company's calculation of rate base, net operating income, and determination of its intrastate revenue requirement. I present recommendations for consideration by the Commission and sponsor Staff's proposed rate base and income statement adjustments.

**Q. What additional documents are being filed with your testimony?**

A. DR responses referenced in my testimony, other documents referenced in my testimony, and the workpapers for each adjustment are attached.

**Q. Please explain how you labeled the other attached documents and calculations.**

A. Documents are labeled consecutively to correspond with each adjustment to which they relate. For example, calculation workpapers and documents, other than DRs, are labeled as Adjustment RB 1, Adjustment RB 1.A, etc.

## II. STAFF ACCOUNTING SCHEDULES

**Q. Are you sponsoring the Staff accounting schedules?**

A. Yes.

**Q. Please summarize how Staff's Accounting Schedules are organized?**

A. Summary Schedules are presented first, with the Schedules showing the derivation of the recommended adjustments following. The elements comprising the proposed revenue requirement are summarized on Staff Schedule REV REQ. Staff's proposed rate base is brought forward from Staff Schedule A-1, Staff Adjusted and Pro Forma Rate Base. Similarly, Staff's adjusted net operating income recommendations are brought forward from Staff Schedule B-1, Staff Adjusted and Pro Forma Operating Income Statement. Staff's cost of capital recommendation is set forth on Staff Schedule C-1, Capital Structure. Adam Gatewood sponsors Staff's cost of capital recommendation. The Schedules are organized as follows:

- REV REQ lists individual components of Staff's pro forma revenue requirement calculation, delineated between total company, interstate, and intrastate.
- A-1 shows Test Year Rate Base, as adjusted by the Company and Staff, on a total the Company basis, separations factors, and amounts allocated to interstate and intrastate jurisdictions.
- A-2 lists Staff's individual Adjustments to the Company's pro forma Rate Base.
- A-3 calculates Cash Working Capital (CWC), as adjusted by the Company and Staff.
- A-4 contains an explanation of Staff's Rate Base Adjustments.
- B-1 contains the Test Year Income Statement, as adjusted by the Company and Staff, delineated on a total Company basis, separations factors, and amounts allocated to the interstate and intrastate jurisdictions.
- B-2 lists Staff's individual Adjustments to the Company's pro forma test year Income Statement.
- B-3 contains an explanation of Staff Adjustments to the Income Statement.
- B-4 includes the calculation of the Company's income taxes.

- B-4-1 shows the calculation of the Company's interest expense.
- C-1 shows the Company's test year and Staff adjusted Capital Structure.
- D-1 shows the calculation of the Company's Times Interest Earned Ratio (Tier) and Debt Service Coverage (DSC).

**Q. Are Staff's adjustments allocated to the interstate and intrastate jurisdictions prior to inclusion in Staff's Schedules?**

A. No. Staff calculated its adjustments on a total company basis, with the adjustments allocated between the jurisdictions, based on separations factors. Some amounts, such as rate case expense, are directly assigned to the appropriate jurisdiction. Staff witness Roxie McCullar sponsors testimony regarding the review of CTC's separations study.

## III. OVERALL FINANCIAL SUMMARY

**Q. What is the Company's proposed intrastate revenue requirement?**

A. As sponsored in the testimony of Robb Walker on behalf of CTC, the intrastate revenue deficiency is $213,937, based upon an overall rate of return of 9.73%.[1]

**Q. What is Staff's calculated revenue deficiency?**

A. Staff has calculated an intrastate jurisdictional revenue overearnings of $220,095.

[1] Subsequently, Mr. Walker filed testimony supporting a return on equity of 21.14%, as shown on page 5 of his November 30, 2004 testimony, however, Mr. Walker did not update the revenue requirement calculation to incorporate the newly revised return on equity.

**Q. What are Staff's recommendations regarding its results?**

A. Staff recommends that the Commission adjust CTC's annual Kansas Universal Service Fund (KUSF) support to reflect the Commission's determination of the Company's cost-based intrastate revenue requirement, and the related KUSF support.

**Q. What is Staff's objective in evaluating CTC's KUSF?**

A. Staff seeks to strike a balance between two stakeholder groups in this proceeding; CTC and Kansas telecommunications customers incurring the costs of the KUSF subsidy. Staff evaluated CTC's revenue requirement with the intent of providing compensation necessary to permit CTC an opportunity to recover its regulated cost of service, while at the same time ensuring that Kansas telecommunications customers subsidize only those costs necessary to provide such service.

**Q. Please summarize Staff's conclusions and recommendations.**

A. Based on the review of the Company's testimony, DR responses, and publicly available information, as well as my experience in the area of regulatory accounting and policy, my conclusions and recommendations are as follows:

- A number of adjustments should be made to the Company's filed results. The specific adjustments discussed in my testimony and their respective impact on test year rate base and operating expense are summarized below:

| Adjust. No. | Description | Item | Total Company | Intrastate |
|---|---|---|---|---|
| RB 3 | Reverse CTC Rate Base | Plant In Service | ($698,286) | ($502,503) |
| | Adjustments | Acc. Dep. | $ 55,430 | $ 37,622 |
| RB 4 | Accumulated Depreciation | Acc. Dep. | ($ 43,540) | ($ 29,552) |
| RB 5 | GSF Allocations | Plant In Service | ($ 33,989) | ($ 22,821) |
| | | Acc. Dep. | $ 16,309 | $ 10,950 |
| RB 7 | Cash Working Cap. | Rate Base | ($4,475) | ($2,276) |
| IS 8 | GSF Allocations | Operating Exp | ($11,736) | ($ 7,883) |
| IS 9 | Reverse CTC Dep. | Operating Exp. | ($55,429) | ($36,034) |
| IS 10 | Depreciation Expense | Operating Exp. | ($46,689) | ($30,352) |
| IS 11 | GSF Depreciation | Operating Exp. | ($ 2,739) | ($ 1,781) |
| IS 12 | Normalize Dep. | Operating Exp. | ($137,380) | ($89,310) |
| IS 13 | B&C Cost Alloc. | Operating Exp. | ($ 38,143) | ($ 26,099) |
| IS 14 | Fiber Lease | Operating Exp. | ($ 46,586) | ($ 31,956) |
| IS 15 | Annualize Payroll | Operating Exp. | ($119,922) | ($80,444) |
| IS 16 | Intangible Tax | Operating Exp. | ($ 1,546) | ($ 1,039) |
| IS 17 | Insurance Exp. | Operating Exp. | ($ 51,452) | ($ 35,232) |

Based on the adjustments recommended by myself and other Staff witnesses and Staff's recommended rate of return, CTC has an intrastate revenue requirement overearning of $220,095.

## IV. STAFF RECOMMENDED ADJUSTMENTS

**Q. How will you identify and refer to the individual Staff accounting adjustments?**

A. Both rate base and operating income adjustments have been numbered sequentially, but separately, beginning with the number one. The first rate base adjustment is referenced as Staff Adjustment RB 1. Similarly, the first operating income adjustment is identified as Staff Adjustment IS 1. Staff witness McCullar is sponsoring Staff Adjustment IS 1. Staff witness Hull is sponsoring Staff Adjustments RB 1, RB 2, and RB 6, and IS 2 through IS 7 and IS 18. I am sponsoring Staff Adjustments RB 3 through RB 5 and RB 7, and Staff Adjustments IS 8 through IS 17. Staff witness Adam Gatewood will sponsor Staff's capital structure and return on equity recommendations.

Staff's Schedule B-1 reflects CTC's pro-forma operating expenses with one exception. Staff has eliminated interest expense as an element of operating expenses, in the amount of $9,317. Interest costs are recovered through the application of a rate of return applied to rate base; thus, the additional inclusion in the revenue requirement as an element of operating expenses would represent a duplicate recovery of this cost. With this one exception, the Applicant Pro-Forma balances in Column E of Schedule B-1 tie to amounts reflected in CTC's application.

**Q. Provide an overview of CTC's corporate structure.**

A. CTC is wholly-owned by Cunningham Management Company (CMC), a privately held family-owned business. In addition to CTC, CMC owns Cunningham Communications, Inc. (CCI), which provides cable and Internet services to customers in north-central Kansas and south-central Nebraska.

CTC has approximately 1,500 access lines located in 6 exchanges in its non-contiguous service territory. CTC has elected a Subchapter S status for income tax purposes, which permits the avoidance of a corporate layer of income taxes; instead, all taxable income is reflected on a pro-rata basis on the personal tax returns of CTC's shareholders. Staff witness Ms. Karen Hull will discuss the unique income tax implications surrounding CTC and will incorporate Staff's recommendation concerning the collection of income tax expense in CTC's intrastate revenue requirement.

**Q. Have you evaluated the allocation of common costs between regulated and non-regulated operations?**

A. Yes. Staff is proposing a number of adjustments necessary to properly allocate joint costs between regulated and non-regulated operations. Specifically, Staff Adjustments RB 5, and IS 8, IS 11, and IS 13 are necessary to adjust the existing allocation of costs between regulated and non-regulated operations.

***Rate Base Adjustments –***

**Q. Please discuss Staff RB 3.**

A. Staff RB 3 reduces Plant in Service and Accumulated Depreciation by $698,286 and $55,430 respectively, on a total company basis, or $502,503 and $39,409 on an intrastate basis. This adjustment effectively reverses CTC proposed rate base adjustments 1 through 4, and is necessary to eliminate the rate base impacts of post test-period adjustments proposed by CTC. The Company's rate base adjustments 1 and 2 proposed to recognize plant in service for the period January through July 2004. CTC's proposed rate base adjustments 3 and 4 reflected budgeted plant in service additions through mid-year 2005. A corollary adjustment to eliminate CTC's pro-forma adjustment to Depreciation Expense will be discussed later as Staff Adjustment IS 3.

During the course of the on-site audit, KCC Staff and CTC reached a mutual agreement that would eliminate the impacts of these adjustments from the CTC revenue requirement. Staff believes that recognition of post-test period plant additions in the revenue requirement would require commensurate updates to other components of the revenue requirement. In lieu of making wholesale updates to the test period, CTC agreed with Staff that it would not oppose the Staff's proposal to reverse CTC rate base adjustments 1 through 4.[2]

Staff's treatment of the rate base updates proposed by CTC is consistent with Staff's approach to this issue in other KUSF proceedings, as summarized in Attachment DND-2.

A preliminary review of CTC's additional plant in service subsequent to the end of the test period indicates it is not growing as rapidly as the balance of Accumulated Depreciation; therefore, rate base has declined subsequent to the test period. The use of an end of test period rate base is higher than it would be if all rate base elements were updated to a subsequent period.

[2] CTC's responses to DRs 157 and 158, and January 17, 2005 e-mail from Robb Walker to Sandra Reams, attached.

**Q. Please discuss why it is important to synchronize Plant in Service with other revenue requirement elements, resulting in the rejection of post-test period adjustments.**

A. It is important that all revenue requirement elements be measured consistently, using the same time frame, to prevent the resulting test period from including distorted results. For example, CTC reflected budgeted assets placed in service after the test period. Staff notes that CTC also proposed to recognize plant projected to be placed in service through July 2005; however, CTC failed to update all rate base balances, including Accumulated Depreciation[3] as of the same period. Therefore the CTC pro-forma Rate Base incorporates a mismatch between the recognition of Plant in Service and its corresponding Accumulated Depreciation. This type of mismatch damages the integrity of the test period and is inappropriate for establishing an appropriate revenue requirement.[4]

**Q. Please discuss Staff Adjustment RB 4.**

A. Staff Adjustment RB 4 increases Accumulated Depreciation for Circuit Equipment by $43,540 on a total company basis, and $29,552 on an intrastate basis. Based on its review, Staff determined that CTC had understated test period depreciation expense since it did not record depreciation expense in several months during the test year. Thus, as shown in Staff Workpaper IS 4, Staff calculated the correct amount of

[3] CTC calculated an annual level of depreciation associated with the new investment and reflected this balance as an adjustment to Accumulated Depreciation; however, it failed to update Accumulated Depreciation balances associated with Telecommunications Plant in Service through mid-2005.
[4] There are other potential mismatches between the recognition of rate base and the income statement from recognizing in isolation post test period investments. For the sake of brevity, I've only discussed the topic of Accumulated Depreciation.

depreciation expense CTC should have recorded during the test year, and updated Accumulated Depreciation. The corresponding entry to increase 2003 Depreciation Expense is described in Staff Adjustment IS 4.

**Q. Please continue with an explanation of Staff Adjustment RB 5.**

A. Staff Adjustment RB 5 supports the following adjustments to Telecommunications Plant in Service and Accumulated Depreciation, related to the allocation of general support facilities (GSF), including land, buildings, and furniture, to non-regulated operations:

Summary of Staff Rate Base Adjustment 5

| | Staff-ProForma | CTC ProForma | Staff Adjustment (Decrease) |
|---|---|---|---|
| 2111 Land | $ (703) | $ 645 | $ (58) |
| 2121 Building | $ ( 146,113) | $ (121,995 ) | $ (24,118) |
| 2122 Furniture | $ (9,81) | $ - | $ (9,814) |
| 2122 Accumulated Depreciation Furniture | $ 4,573 | $ - | $ 4,573 |
| 2121 Accumulated Depreciation Building | $ 71,975 | $ 60,240 | $ 11,735 |

CTC allocated its Glen Elder business office to unregulated operations, based on an outdated time study, and failed to allocate common areas within the building to non-regulated operations. This adjustment also allocates a portion of the land, buildings, and furniture, along with the associated Accumulated Depreciation, to nonregulated operations. Staff's calculation of this adjustment is set forth on Staff Workpapers RB 5.1 and 5.2.

Staff first updated the non-regulated allocation percentage by utilizing a 2003 time study conducted annually for payroll distribution purposes. Each employee working in the Glen Elder business office completed the time study. The results of the 2003 time study were then applied to the square footage of the common area, as well as to the land, building, and furniture, to determine the total amount to allocate to non-regulated operations. The amount calculated by Staff was then compared to the amount CTC allocated in its filing, with Staff's adjustment reflecting the difference. Staff's adjusted non-regulated allocation percentage associated with the Glen Elder Office Building was 12.34%.[5]

A proper allocation of costs to non-regulated operations is necessary to ensure KUSF funds are not provided to subsidize non-regulated operations. This adjustment corrects the understated non-regulated cost assignment provided by CTC in its application. This adjustment also impacts depreciation expense on these assets assigned to non-regulated operations. The corresponding adjustment necessary to remove non-regulated depreciation from the revenue requirement is quantified in Staff Adjustment IS 5.

[5] Normally, the GSF allocation to non-regulated operations would include an allocation of computers as a common asset whose non-regulated use varies with the portion of employee payroll properly assigned to non-regulated operations. However, the CTC computers are fully depreciated; therefore, the cost of any asset allocation to non-regulated operations would be exactly offset by an allocation of accumulated depreciation. Since this exercise would have no impact on net plant in service, Staff has not calculated an adjustment to allocate this asset. Also, Staff did not allocate a portion of the associated property taxes to non-regulated operations, as this adjustment was deemed immaterial.

**Q. Please explain Staff's adjustment for RB 7.**

A. Adjustment RB 7 computes a Cash Working Capital (CWC) allowance using Staff's adjusted expense balances and the Standard Allowance Method (SAM). This adjustment is shown on Schedule A-3 of the Staff Accounting Schedules.

In its Order dated September 10, 2001, in Docket No. 01-SNKT-544-AUD, the Commission stated that, while it prefers an individualized company lead-lag study, it recognizes that such a study could be cost prohibitive to some companies. The Commission indicated that if a company uses the SAM to calculate CWC in its filings with the Federal Communications Commission (FCC) and National Exchange Carriers Association (NECA), the Commission would accept a company's use of the SAM in these KUSF audits. CTC utilized the SAM to calculate CWC in its filings with the FCC and NECA and in its filing with this Commission.

The Commission stated: "The Commission will not routinely adopt an adjustment to the Standard Allowance Method, proposed either by the company or by Staff, unless it reflects a factual circumstance of that company that has a material impact on its CWC need and that is not otherwise captured in the methodology."

**Q. Is Staff proposing any adjustments to the SAM in this proceeding?**

A. No.

***Income Statement Adjustments-***

**Q. Please discuss Staff Adjustment IS 8.**

A. Staff Adjustment IS 8 reduces operating expenses $11,736, on a total company basis or $7,883 on an intrastate basis. This adjustment is necessary to allocate an appropriate amount of Land and Building Expenses related to the Glen Elder business office, a warehouse, and the central office building to CTC's non-regulated operations. As discussed in Staff Adjustment RB 5, a portion of the Glen Elder business office, as well as other CTC warehouses are properly assigned to CTC's non-regulated cable business. However, the Company did not allocate sufficient land and building expenses as part of the common costs that should be allocated between regulated and non-regulated operations. Certain Land and Building costs were assigned by CTC to unregulated operations; however the level of cost assignment was disproportionately low compared with the non-regulated portion of the Glen Elder business office. Since these common costs are associated with buildings that are subject to allocation, they too must be assigned between regulated and non-regulated operations. Staff applied the non-regulated allocation percentage of 12.34%, as developed in RB 5, associated with the Glen Elder business office to total Land and Building expenses, Account 6120 and Land and Building Expenses – non-regulated, Account 7991.2

**Q. Please discuss Staff Adjustment IS 9.**

A. Staff adjustment IS 9 reduces pro-forma depreciation expense by $55,429 on a total company basis, or $36,034 on an intrastate basis. This adjustment reverses CTC's pro-forma adjustments IS 4 and 9 and arises from Staff's Adjustment RB 3 as discussed above, necessary to eliminate the depreciation expense impact associated with estimated plant additions that are removed from rate base in that adjustment. The selective inclusion of post-test period plant increases in rate base, while ignoring other cost of service elements (such as the increase in Accumulated Depreciation), results in a mismatch that distorts the test period concept used by the Commission in establishing an appropriate revenue requirement.

**Q. Please explain Staff Adjustment IS 10**

A. Staff Adjustment IS 10 increases 2003 Depreciation Expense by $46,689 on a total company basis to reflect a corrected level of depreciation expense associated with Circuit Equipment. Staff Adjustment IS 4 increases intrastate test year depreciation expense by $30,352. This adjustment corresponds to Staff Adjustment RB 4 described above. Staff recalculated the appropriate depreciation expense CTC should have recorded based on plant in service additions and retirements that occurred in 2003, as provided in CTC's response to DR 35. The calculations supporting this adjustment are shown within Staff Adjustment IS 4.

**Q. Please explain the reason for Staff Adjustment IS 11.**

A. Staff Adjustment IS 11 reduces total company Depreciation Expense by $2,739 to eliminate that portion of depreciation associated with general support facilities as identified in Staff Adjustment RB 5. On an intrastate basis, Staff Adjustment IS 5 reduces depreciation expense by $1,781. This adjustment is necessary to eliminate the depreciation expense associated with facilities properly assigned to non-regulated operations. The adjustment ensures that payers into the KUSF do not subsidize CTC's unregulated operations.

**Q. Please discuss Staff Adjustment IS 12**

A. Staff Adjustment IS 12 reduces CTC's total company Depreciation Expense by $137,380 by annualizing depreciation expense, based on Staff's adjusted test year end levels of Plant in Service and Accumulated Depreciation, as shown on Staff Workpapers IS 12 through IS 12.3. Intrastate depreciation expense is reduced by $89,310. The adjustment reflects that certain plant accounts are either fully depreciated at the end of the test period or had a net book value of zero shortly after the test period. The adjustment is necessary to synchronize depreciation expense with the underlying Plant in Service and Accumulated Depreciation balances. Staff Workpaper 12.2 details the development of Staff's pro-forma level of Plant in Service, reflecting Staff Rate Base Adjustments 2, 3, and 5. Likewise, Staff Workpaper 12.3 summarizes the development of the Staff adjusted level of Accumulated Depreciation. Staff Workpaper 12.1 calculates Staff's normalized depreciation expense based on the lower of annualized depreciation (gross plant in service applied to the KCC approved depreciation rate) or the net book value of each account, consistent with Commission policy.[6]

[6] September 10, 2001 Order, Docket No. 01-SNKT-544-AUD.

**Q. Please explain Staff Adjustment IS 13.**

A. Staff Adjustment IS 13 reduces Customer Service Billings and Collection (B&C) costs $38,143 on a total company basis or $26,099 on an intrastate basis. This adjustment is necessary to properly assign B&C costs incurred by CTC employees on the behalf of CCI's non-regulated operations. .

**Q. Could you please explain the underlying nature of this transaction?**

A. Yes. CTC employees perform B&C functions on behalf of its affiliate, CCI, for Internet and cable television operations. The CTC labor costs (as well as incidental supply costs) are recorded on CTC's regulated books and are not assigned or otherwise allocated to CCI.[7] Therefore, the B&C costs reflected on the books of CTC regulated operations include joint and common costs associated with CTC's regulated telephone billings and CCI's billings for its cable television and Internet operations. An adjustment is necessary to prevent the KUSF from subsidizing CCI's unregulated operations.

**Q. Please describe the procedure used to calculate the adjustment necessary to assign an appropriate level of joint and common billing and collection costs to the non-regulated operations of CCI.**

A. Staff calculated its adjustment based on the affiliate pricing standards adopted by the Federal Communications Commission (FCC). Specifically, the FCC requires that non-tariffed services provided by a carrier (i.e. regulated telecommunication

[7] CTC's response to DR 141, attached.

company) to an affiliate (not otherwise provided pursuant to an agreement provided to a state public utility commission) shall be recorded on the carrier's books at the higher of fair market value and fully distributed cost.[8] Therefore, the costs incurred by CTC on behalf of CCI should be an offset to regulated operating expenses, and quantified at the higher of the value of the service provided or an allocation of such common costs between the regulated operation of CTC and CCI's non-regulated operations.

The city of Beloit, Kansas provides B&C services on behalf of CCI's cable television subscribers residing within the city limits. This service is performed by the city of Beloit at a monthly cost per customer, as discussed in the response to confidential DR 142. This is an appropriate benchmark to use as the market value of the B&C services provided by CTC to CCI since it represents an arms-length agreement between unaffiliated parties.

Staff used the contract benchmark to compute the portion of total B&C costs that should have been assigned to CCI's non-regulated operations. Total CCI bills processed by CTC were obtained[9] and multiplied by the rate per bill rate contained in the CCI/City of Beloit contract. The resulting total company adjustment is a reduction in B&C costs of $38,143, or $26,099 on an intrastate basis, as shown on Staff Workpaper IS 13.

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[8] 47 C.F.R. 32.27.
[9] CTC's response to DR 142.

During the course of Staff's investigation, CTC provided an alternative calculation allocating certain B & C costs to non-regulated operations. However, the computation was based upon cost, rather than the higher of cost or fair market value. The adjustment above properly assigned these affiliate transactions at fair market value, which in this instance is higher than fully distributed cost.

**Q. Please continue with an explanation of Staff Adjustment IS-14.**

A. Staff Adjustment IS 14 reduces operating expenses by $46,586 on a total company basis, or $31,956 on an intrastate basis. This adjustment is necessary to eliminate the costs of an affiliate lease for fiber, which is non-operational, and to eliminate the legal costs associated with the lease.

**Q. Please describe the nature of the lease and the justification for eliminating the costs from the test period.**

A. On January 1, 2003, CTC executed a ten-year lease with CCI, its affiliate, for six dark fibers. The intent of the lease is to provide a secondary toll route to CTC in case service is cut from its primary toll provider, SBC. However, as of January 2005, the route has yet to become operational[10] and therefore, the lease is not providing a benefit to CTC customers. Staff does not question that a redundant toll route would enhance the overall service quality to CTC ratepayers as it would ensure uninterrupted service in the event the primary SBC route becomes unavailable.

[10]CTC's response to DR 148.

However, CTC failed to take the additional steps necessary to make the backup route truly operational in the twenty-five months since contract execution.

The additional steps necessary to render the route operational include execution of an interconnection agreement with JBN Telephone and a physical splice to connect JBN fiber with that of CCI[11]. The costs of the lease should be denied recovery as the route is not functional and is not capable of providing service to CTC customers. Furthermore, the computation of the lease cost charged by CCI to CTC does not appear to be at the lower of fully distributed cost or market.

**Q. Please discuss Staff Adjustment IS 15.**

A. Staff Adjustment IS 15 reduces operating expenses by $119,922 on a total company basis or $80,474 on an intrastate basis to properly reflect pro-forma payroll and benefit expenses, as shown on Staff Workpaper IS 15. This adjustment incorporates a number of changes to the adjustment proposed by CTC in its adjustment IS 15. Staff utilized the 2003 gross payroll[12] as the starting point for the adjustment and incorporated a number of modifications to test period payroll;

a. Eliminated the payroll charges for a CTC employee that retired from CTC, effective December 31, 2004.

b. Replaced the test period payroll expense for two CTC employees with the 2004 expense to reflect changes in the two employees' responsibilities, split between regulated and non-regulated operations.

[11] CTC's response to DR 149.
[12] CTC's response to DR 133

c. Eliminated the test period payroll for three employees who left employment during 2003.

d. Increased wage expense to reflect payroll increases granted in January 1, 2004.

e. Annualized payroll for three newly hired employees, based on their 2004 payroll expense.

f. Annualized increases occurring in 2004 for Health Insurance costs, and

g. Calculated the increase in payroll taxes associated with the increase in underlying payroll charges.

**Q. Please explain each of the modifications you're sponsoring in arriving at Staff's proposed pro-forma level of payroll.**

A. The detailed calculations underlying this adjustment are contained with Staff Workpapers IS 15 through IS 15.6. The starting point for the adjustment calculation is the 2003 test period payroll as provided by CTC in DR 17.[13] First, the test period payroll expenses for a retired employee were eliminated. An existing employee has filled the retired employee's position, with that existing employee's position being filled by another employee. Thus, there is a net reduction of one employee, effective January 1, 2005. Essentially, these three employees filled two positions in 2004, since the two employees were in training for their new positions.

**Q. Please continue with an explanation to your next modification to the payroll adjustment.**

[13] The Commission should not rely upon the total amounts on the paper copies attached to this testimony. Certain employee data contained computational errors that were corrected by Staff within the electronic copies.

A. A CTC Telephone Supervisor and a CATV Tech experienced a transition in their job responsibilities in 2004 compared with 2003. The Telephone Supervisor's primary responsibilities in 2003 were to provide services on behalf of unregulated affiliate CCI. In 2004, the Supervisor's primary responsibilities shifted and he began performing the majority of his work on behalf of CTC, resulting in additional payroll charges accruing to CTC's operating and maintenance accounts. Meanwhile, the CATV Tech's primary responsibilities shifted from the regulated operations of CTC in 2003 to CCI's unregulated operations in 2004.

**Q. How are the impacts of these changes in work responsibilities reflected in Staff's payroll calculation?**

A. For each of these employees, their 2003 payroll costs were eliminated and their 2004 payroll costs added[14], incorporating each employee's 2004 payroll distribution, allocated between regulated and non-regulated operations. This portion of the adjustment is appropriate as it reflects a better measurement of time spent on regulated versus non-regulated operations on a going forward basis.

**Q. Please continue with the next modification you made in calculating Staff's pro-forma payroll costs.**

A. The next step in Staff's calculation was to remove the payroll costs (by account) for those individuals who terminated employment with CTC in 2003. Information provided in CTC Response 16 indicated that three employees left employment during

[14]CTC's outside employees maintain daily time-sheets to record time spent working on non-regulated versus regulated operations. The primary driver of Staff's Adjustment IS 15 is to reflect their 2004 payroll distribution, allocated between regulated and non-regulated operations.

2003. Therefore, the payroll costs associated with these employees should be removed from the test period payroll calculation as set forth in Staff Workpaper IS 15.2. Similarly, the payroll costs for three employees initiating employment in 2004 were also annualized. Each of the partial years' payroll costs for these employees were annualized and added to Staff's pro-forma level of payroll costs as set forth in Staff Workpaper IS 15.4.

**Q. Please discuss the next step in quantifying Staff's payroll adjustment.**

A. Staff developed the weighted average percentage of wage increase as identified in CTC's response to DR 133, attached, and as calculated in Staff Workpaper IS 15.3. This weighted average percentage was then applied to test period payroll, adjusted for the payroll of those employees that terminated employment in 2003.[15]

**Q. Please discuss the final steps within Staff's pro-forma payroll calculation.**

A. The final step in developing Staff's pro-forma payroll and related costs was to calculate the incremental payroll taxes based on the adjustments discussed above. The 2004 increase in payroll will generate additional payroll taxes, as identified in Staff Workpaper IS15.5. The resulting increase in payroll taxes is $1,277 on a total company basis. Finally, Staff annualized the increase in heath insurance premiums based on information provided in CTC's response to DR 133, as shown in Staff Workpaper IS 15.6.

[15]The payroll costs of the employee who retired in 2004 were removed for purposes of computing the percentage increase, consistent with the Staff adjustment to eliminate his costs from the payroll annualization.

Then, Staff compared its pro forma increase, as described above, with CTC's proposed adjustment IS 8, resulting in a decrease of $119,749 on a total company basis, or $80,508 on an intrastate basis.

**Q. Please continue with a discussion of Staff Adjustment IS 16.**

A. Staff Adjustment IS 16 eliminates $1,546 from Other Tax Expense or $1,039 on an intrastate basis associated with an intangible tax levied by the city of Glen Elder and Mitchell County. The intangible tax is levied upon interest generated from savings accounts and certificates, as well as corporate stock dividends. The interest generated from short-term investments is not used to reduce the cost of service. Therefore, taxes incurred as a result of earned interest should be recorded below the line and excluded from the determination of CTC's intrastate revenue requirement. Stock dividends accrue to the benefit of shareholders and as a result, tax associated with such dividends is the personal responsibility of the shareholders. Similar to earned interest, these dividends are not used to reduce the CTC revenue requirement; therefore, the associated intangible tax on the dividends should not be included in the determination of CTC's intrastate revenue requirement. This adjustment is identified in Staff Workpaper IS 16.

**Q. Please discuss Staff Adjustment IS 17.**

A. Staff Adjustment IS 17 eliminates $51,452 of total company, or $35,232 of intrastate, non-recurring insurance expense. During the test period, CTC utilized an affiliated entity to provide insurance coverage, based on favorable federal legislation; however, the related benefits were eliminated with the 2004 Pension Funding Act.[16] CTC indicates that insurance expense will decrease by $51,452, as a result of the elimination of its self-insurance plan. Since these affiliate costs are non-recurring in nature, Staff eliminated the costs from its calculation of CTC's intrastate revenue requirement.[17]

**Q. Does this conclude your testimony?**

A. Yes.

[16] CTC's response to DR 107, attached.

[17] If such costs were ongoing in nature, additional review of these affiliate transactions would be necessary to ensure that the services were provided at the lower of cost or market. Given the statement by CTC that such costs were non-recurring, additional review was not required.

# VERIFICATION

STATE OF KANSAS )
)
COUNTY OF SHAWNEE )

David N. Dittemore, being duly sworn upon his oath deposes and states, that he has read and is familiar with the foregoing *Direct Testimony*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

David N. Dittemore

David N. Dittemore
Consultant for Staff
State Corporation Commission of the
State of Kansas

SUBSCRIBED AND SWORN to before me this 17 day of March, 2005

OFFICIAL SEAL
DONIELLE N. SANDERS
NOTARY PUBLIC OKLAHOMA
TULSA COUNTY
Comm. Exp. June 14, 2005

Donielle N. Sanders
Notary Public

My appointment expires: June 14, 2005

**CERTIFICATE OF SERVICE**

05-CNHT-020-AUD

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony of David Dittemore was placed in the United States mail, postage prepaid, or hand-delivered this 18th day of March, 2005, to the following:

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Pamela Griffeth

2005.10.10 16:49:01
Kansas Corporation Commission
/S/ Susan K. Duffy

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

OCT 10 2005

Susan Talbott Docket Room

| | |
|---|---|
| In the Matter of an Audit of Totah Communications, Inc. | ) ) Docket No. 05-TTHT-895-AUD |

DIRECT TESTIMONY

OF

DAVID N. DITTEMORE

ON BEHALF OF

KANSAS CORPORATION COMMISSION STAFF

October 10, 2005

## I. INTRODUCTION

**Q. Please state your name.**

A. David N. Dittemore.

**Q. What is your occupation and business address?**

A. I am a self-employed consultant specializing in the area of public utility regulation. My business address is 8910 N. 131st E. Ave. Owasso, OK 74055

**Q. Please discuss your educational background and regulatory experience.**

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from Central Missouri State University in 1982. Starting in 1982, and through 1984, I was employed as an Accountant by Standard Oil (Indiana). I accepted a Staff position with the Kansas Corporation Commission (KCC or Commission) in 1984 and held various Staff positions while at the KCC, including Chief of Accounting and Financial Analysis. In 1995, I accepted a position as Manager of Rates with Missouri Gas Energy. In 1996, I returned to the KCC as Deputy Director of the KCC and was appointed Director of Utilities in 1997. I accepted a position with WorldCom in 1999 as Manager of Wholesale Billing Resolutions, with responsibility to resolve disputed billing issues with facilities-based and resale long distance providers. In 2000, I accepted a position as Manager of Regulatory Affairs with The Williams Companies. During my tenure with Williams, I monitored wholesale electric power issues on behalf of Williams Energy Marketing and Trading, provided research on electric regulatory activities in key states and participated in due diligence efforts designed to secure long term power supply arrangements with electric utilities. In 2003, I began my consulting practice in the field of public utility regulation. In summary, I have experience in the natural gas, telecommunication and electric industries, in addition to approximately fourteen years experience with the KCC.

**Q. On whose behalf are you appearing?**

A. I am appearing on behalf of the Commission Staff (Staff).

**Q. Have you previously testified before this Commission?**

A. Yes. I have testified on numerous occasions before the KCC. I have also testified before the Federal Energy Regulatory Commission (FERC), the Interstate Commerce Commission (ICC), the Georgia Public Service Commission and the Vermont Department of Public Service. I have also filed testimony before the Arkansas Public Service Commission and the Oklahoma Corporation Commission.

**Q. Please describe the tasks you performed related to your testimony in this case.**

A. I obtained and reviewed the filing submitted by Totah Communications, Inc. (Totah, or Company), reviewed Totah's data request (DR) responses, and performed other procedures as necessary to obtain an understanding of the Company's filing to formulate an opinion concerning the reasonableness and appropriateness of the Company's proposals. This included an on-site review at the Company's offices in Ochelata, Oklahoma.

**Q. What issues do you address in your testimony?**

A. My direct testimony identifies and discusses areas of concern with respect to the Company's calculation of Rate Base, net operating income, and determination of its intrastate revenue requirement. I present recommendations for consideration by the Commission and sponsor Staff's proposed Rate Base and income statement adjustments. The adjustments I am sponsoring are outlined in the table below:

| Staff Adj. | Description | Total Adjustment | Intrastate Adjustment |
|---|---|---|---|
| RB-1 | Post Test Period Estimated Plant Additions | ($825,000) | ($437,122) |
| RB-2 | Telephone Plant Under Construction | ($6,326) | ($3,408) |
| RB-3 | Other Post Employment Benefit Liability | ($289,296) | ($155,849) |
| RB-4 | Allocation of Plant Assets to Non-Reg Operations and Joint Allocation between Oklahoma/Kansas | ($60,467) | ($32,575) |
| RB-7 | Cash Working Capital | ($5,801) | ( $1,663) |
| IS-1 | Allowance for Funds Used During Construction (AFUDC) | $69,401 | $37,387 |
| IS-2 | Allocation of Operating Expenses to Non-Reg Operations and Joint Allocation between Oklahoma/Kansas | ($16,754) | ($9,026) |
| IS-3 | Billing and Collections – Assignment to Non-Regulated Operations | ($2,214) | ($1,461) |

**Q. What additional documents are you filing with your testimony?**

A. The workpapers for each adjustment are attached in Attachment DND-1. DR responses and other documents referenced in my testimony are included in Attachment DND-2.

**Q. Please explain how you labeled the other attached documents and calculations.**

A. Documents are labeled consecutively to correspond with each adjustment to which they relate. For example, calculation workpapers and documents, other than DRs, are labeled as Staff Workpaper RB- 1, Staff Workpaper RB- 1.1, etc.

**Corporate Overview**

**Q. Please provide a brief overview of Totah's corporate operations.**

**A.** Section 12(i) of Totah's filing contains an overview of Totah's operations. Totah provides regulated telecommunications service in Oklahoma and Kansas. Totah's Oklahoma operations contain approximately 60% of Totah's access lines, while Kansas operations provide service to the remaining 40% of access lines.

Totel Customer Services Inc. (CSI) is a wholly owned subsidiary providing long distance and internet services, inside wire, cell phone sales and the sale and maintenance of customer premise equipment (CPE). Consistent with Staff's approach in other rural LEC audit dockets, for purposes of this docket, long distance operations are referred to as non-regulated to ensure the KUSF does not subsidize these operations.

Administrative and operational functions are provided by Totah to CSI. These functions are provided pursuant to an Affiliate Agreement, contained in Section 12 of Totah's filing. As further discussed later, Staff recommends this Agreement be refiled with the Commission to reflect revisions. As discussed in Totah's filing, certain costs are directly assigned to the Company's Kansas and Oklahoma operations, as well as non-regulated operations. Other costs are assigned from Totah Communications to CSI based upon timesheet reporting. Staff has reviewed test period timesheets of Totah and is proposing certain adjustment described later in testimony.

Totah also has two wholly owned subsidiaries, Totelcom/Kansas and Totelcom/Oklahoma, which are involved in investing activities. Neither entity is involved in regulated operations.

**Q. Is there anything unique about Totah's application that complicates the assignment of non-regulated costs to Totah's Kansas operations?**

A. Yes. Totah has a substantial amount of joint costs, mainly as a result of having General Support Facilities (GSF), including land, buildings, general purpose computers, furniture, vehicles, and other work equipment, that are used in its operations in Oklahoma and Kansas. Although separate Kansas and Oklahoma financial records are maintained, most joint costs are contained within its Oklahoma financial statements. Therefore, an allocation of joint costs to Kansas operations is required for ratemaking purposes. The allocation of joint costs, coupled with the allocation of costs to non-regulated operations somewhat complicates the determination of Totah's revenue requirement.

As discussed later in my testimony, the non-regulated adjustment associated with joint assets and associated costs are combined with the adjustment to allocate these assets and costs to Kansas.

***Rate Base Adjustments***

**Q. Please discuss Staff RB- 1.**

A. Staff RB- 1 eliminates $825,000 on a total company basis or $437,122 on an intrastate basis the cost of Totah's post test period planned upgrades to Circuit Equipment and Buried Cable, proposed in the Company's Adjustment Pro forma 10, as shown in Section 9 (ii) of Totah's filing. These upgrades fail to pass the known and measurable standard for Rate Base inclusion. These projects were not closed to plant in service during the time of Staff's field audit of Totah, and thus, Staff was not able to audit or verify the proposed updates.

During the course of the on-site audit, KCC Staff and Totah reached a mutual agreement that would eliminate the impacts of these adjustments from Totah's revenue requirement since recognition of post-test period plant additions would require commensurate updates to ensure proper synchronization of all Rate Base components. In lieu of making wholesale updates to the test period, Totah agreed with Staff that it would not oppose Staff's proposal to reverse Totah Pro Forma Rate Base adjustment 10

Staff's treatment of the proposed, estimated Rate Base updates is consistent with Staff's approach to this issue in other KUSF proceedings, as summarized in Attachment DND-3.

**Q. Please discuss why it is important to synchronize Plant in Service with other revenue requirement elements, resulting in the rejection of post-test period adjustments.**

A. It is important that all revenue requirement elements be measured consistently, using the same time frame, to prevent the inclusion of distorted results in the test period. Staff notes that Totah proposed to recognize plant projected to be placed in service through December 2005; however, Totah failed to update all Rate Base balances, including Accumulated Depreciation,[1] as of the same period. Therefore, Totah's proposed pro-forma Rate Base incorporates a mismatch between the recognition of Plant in Service and its corresponding Accumulated Depreciation. This type of mismatch damages the integrity of the test period and is inappropriate for establishing an appropriate revenue requirement.[2]

---

[1] Totah calculated an annual level of depreciation associated with the new investment and reflected the increase as an adjustment to Accumulated Depreciation; however, it failed to update Accumulated Depreciation balances associated with Plant in Service as of December 31, 2005.

[2] There are other potential mismatches between the recognition of Rate Base and the income statement from recognizing in isolation post test period investments. For the sake of brevity, I've only discussed the topic of Accumulated Depreciation.

**Q. Please continue with an explanation of Staff Adjustment RB-2.**

A. Staff Adjustment RB-2 reduces Rate Base $6,326 on a total company basis, or $3,408 on an intrastate basis to eliminate the balance of Telephone Plant Under Construction (TPUC) that was included in Totah's filing.[3] By definition, TPUC contains expenditures that are not used or useful, and thus, are not providing a benefit to consumers. It is inappropriate to include the cost of plant under construction in Rate Base since it is not providing service to consumers.

**Q. Please discuss Staff Adjustment RB-3.**

A. Staff Adjustment RB-3 reduces Rate Base $289,296 on a total company basis, or $155,849 on an intrastate basis. This balance of Accumulated Post-Retirement Benefit Obligation reflects cost free capital provided by ratepayers and therefore, represents an offset to Rate Base. The adjustment has been reduced by the allocation of this liability balance to non-regulated operations.

**Q. How did Staff determine the amount associated with non-regulated operations?**

A. Totah's filing, Section 12, included the results of a one-month time study for inside and outside employees. Staff compared these results to the 2004 payroll distribution report, by employee, provided by Totah in response to DR 82.[4] This comparison indicated that the time actually recorded to non-regulated operations was greater than that reflected in the time study. Staff developed separate non-

[3] Totah application, Section 3 (A), line 5.
[4] Only the confidential 2004 payroll distribution report, provided in response to DR 82, is attached, due to the voluminous nature of the response.

regulated composite payroll percentages for inside (12.32%) and outside (4.49%) employees as shown on Staff Workpaper RB- 4.7 and RB- 4.8, respectively. Thus, using the same format as that provided by Totah, Staff updated the calculation of the non-regulated factor for inside and outside employees, summarized on Staff workpaper RB- 4.6, to reflect the actual labor charged to non-regulated operations. Based on these new allocation factors, Staff derived a composite non-regulated factor of 8.63%. This composite non-regulated allocation factor was applied to the Accumulated Post Retirement Benefit Obligation since the liability is directly related to the incurrence of labor charges.

The adjustment is also reflected as a reduction to the Cash Working Capital (CWC) computation, discussed later in Adjustment RB-8, since it is not an actual cash expense, but an accounting recording mechanism, similar to depreciation expense.

**Q. Please explain the nature of the Accumulated Post-Retirement Benefit Obligation account and discuss why it should be reflected as an offset to Rate Base.**

A. Post Retirement Benefit costs include such items as the cost of retiree health care, life insurance and prescription drugs. These costs are accounted for pursuant to Statement of Financial Accounting Standards (SFAS) No. 106, which requires that such costs be recognized for financial reporting purposes during the period of active employment (accrual basis). Prior to implementation of SFAS 106, such costs were recognized on a cash basis, when such payments for retiree costs were actually made. SFAS 106 was adopted to better match the recognition of such costs during the periods in which the costs were actually incurred – during active employment.

Staff is recommending that the balance of Accumulated Post Retirement Benefit Obligation be used as an offset to Rate Base.[5] This account balance represents the cumulative amount of SFAS 106 expense in excess of actual payment made for these retiree costs. In other words, the expense recognized on an accrual basis is typically greater than the actual cash payments made for these benefits. Therefore, a liability is recorded to recognize the obligation of the company to pay out future benefits that have already been recorded as an operating expense. The liability represents cumulative amounts expensed in excess of cash payments over time; therefore, it is a source of cost free capital that should be used to reduce Rate Base. Staff's schedules allow for the recovery of the Transitional Benefit Obligation (TBO) and the actual expense incurred during the test year, consistent with the Commission's prior determination in Docket No. 01-RRLT-083-AUD.

**Q. Please discuss Staff Adjustment RB-4**

Staff Adjustment RB-4 reduces Rate Base $60,467 on a total company basis, or $32,575 on an intrastate basis. This adjustment is necessary to adjust the

[5] See the Direct Testimony of Ralph S. Smith, Docket Nos. 02-BLVT-377-AUD, and 03-WHST-503-AUD, and the Direct Testimony of Sandra K. Reams, Docket No. 03-TWVT-1031-AUD.

allocation of Totah's General Support Facilities (GSF), net of the allocation to non-regulated operations, to Kansas. Staff computed a corresponding Income Statement adjustment, identified as IS-3, discussed later in my testimony. As discussed earlier, a substantial amount of common assets, such as building, land, vehicles, computers, and furniture, must be allocated between the two state jurisdictions. Further, the non-regulated portion of these joint assets must be determined and removed from the Company's intrastate revenue requirement to ensure that regulated operations and the KUSF subsidy are not subsidizing non-regulated ventures. The adjustment may be summarized in the following table[6]:

| Item | Totah Pro-Forma Adjustment | Staff Pro-Forma Adjustment | Staff Net Adjustment | Intrastate Portion |
|---|---|---|---|---|
| Land and GSF | $470,466 | $451,722 | ($18,744) | ($10,097) |
| Accumulated Depreciation GSF (Increase to A/D) | ($289,599) | ($325,284) | ($35,685) | ($19,224) |
| Acc. Deferred Tax Liability (Increase to ADIT) | ($8,425) | ($14,464) | ($6,039) | ($3,253) |
| Net Rate Base Adjustment | | | ($60,467) | ($32,575) |

**Q. Please explain how Staff determined the amount to allocate to the Kansas jurisdiction.**

[6] Staff disagreed with the non-regulated assignment of **Kansas specific** Motor Vehicles and Other Work Equipment to non-regulated operations. However, since these assets are fully depreciated, there is no net Rate Base balance associated with these assets and therefore no adjustment is presented by Staff. The associated adjustment to assign the deferred tax liability associated with Kansas specific assets was immaterial. Other joint assets have a positive net book value; such as Totah's headquarter building and joint vehicles, therefore Staff has incorporated its non-regulated adjustment on a total company basis prior to the allocation of the asset to the Kansas jurisdiction.

A. The first step was to review the non-regulated and state allocation adjustments Totah proposed in TPA 4 and SSA 7. That review resulted in further discussion with Totah regarding the methodology used in calculating its adjustments. These discussions led to Totah providing a revised floor space study, and non-regulated and multi-state allocation adjustments. These revisions were provided in response to DR 83, attached. Staff reviewed the revised information provided in response to DR 83, and made several further revisions. The first revision was to change the non-regulated allocation factor. This increased the non-regulated cost allocations since Staff used the actual labor distribution during the test year, rather than the one month study used by Totah in its filing. Another revision directly assigned more vehicle costs to Oklahoma operations. These revisions, along with the revised floor space study Totah submitted[7] reduce the joint costs subject to assignment between Oklahoma and Kansas. Once the proper amount of regulated joint costs to be allocated between Kansas and Oklahoma operations was determined, Staff applied the 59.53% Oklahoma and 40.47% Kansas allocator to derive the Kansas amount. These allocation ratios are the same as computed by Totah in response to Staff Data Request 83. There are a number of supporting work papers used in developing this adjustment, identified and discussed as follows:

**Staff Workpaper RB- 4.1**

[7] Totah Response to Staff Data Request No. 83.

This workpaper summarizes Staff's adjustment that allocates joint costs to Kansas, for both assets and operating expenses, which supports Staff Adjustment RB-4 and IS-3. Column A summarizes Totah's adjustments TPA 4 and SSA 7 to allocate costs to Totah's Kansas jurisdiction. Column B sets forth Staff's pro-forma allocation of joint costs to Kansas operations calculated in Workpaper RB-4.2. Column C quantifies Staff's net adjustment by subtracting Totah's original adjustments from Staff's pro-forma calculation.

**Staff Workpaper RB- 4.2**

This workpaper outlines the calculation used to determine the appropriate amount of joint costs (assets, accumulated depreciation, deferred tax liability and operating expenses) to allocate to Kansas operation. As shown on Line 5, the Kansas jurisdictional percentage of joint costs is 40.47% based upon the ratio of the direct costs of Kansas Central Office Equipment and Cable and Wire Facilities to total company balances.

Column A sets forth the joint costs as recorded on Totah's books that require allocation to the Kansas jurisdiction[8]. Column B sets forth the portion of costs assigned to non-regulated operations. The allocations to non-regulated operations are set forth on Staff Workpapers RB-4.3 and RB- 4.4 and are based upon Staff's revised time analysis for Totah employees. Column C calculates the net regulated

[8] Amounts listed for Motor Vehicles represent the joint portion of costs net of amounts that can be directly attributed to Oklahoma operations.

costs, on a total company basis. Columns A through C, designated as Oklahoma, represent amounts that are joint costs of assets physically located in Oklahoma, but that are used to provide regulated service in Oklahoma and Kansas. Column F computes the Kansas portion of the joint costs identified in Column C.

In regards to Motor Vehicles, the Vehicles' cost and associated Accumulated Depreciation, listed on lines 21 and 23 respectively, are net of vehicles that are solely used in Oklahoma operations. Based on on-site discussions, Totah agreed that $70,094 of vehicles should have been assigned to Oklahoma, as provided in supplemental response to Staff request 90, attached. Also, Totah response to Staff request 105 identifies the amount of vehicles are directly assigned to Oklahoma ($70,094). Therefore, the net joint vehicle costs subject to state allocation are $184,576, resulting in $71,344 being allocated to the Kansas jurisdiction, as shown on Line 22, Column F of Staff Workpaper RB- 4.2.

The Kansas vehicle amount, listed in Line 21, Column D, represents the cost of vehicles solely used in Kansas operations. The non-regulated assignment of vehicles costs for specific Kansas vehicles totals $4,459, while the level of Accumulated Depreciation for these Kansas vehicles totals the identical amount, thus, these assets are fully depreciated. Therefore, no specific non-regulated adjustment for Vehicles and Accumulated Depreciation is proposed.

The assignment of joint costs to non-regulated operations is accomplished in the calculation within Column B, based upon the total joint costs. Therefore, costs allocated to Kansas operations in Column F represent net regulated costs and no further allocation to non-regulated operations is required or appropriate.

**Staff Workpaper RB- 4.3 and 4.4**

These workpapers outline the calculation of non-regulated costs for GSF investment, accumulated depreciation, deferred taxes and associated operating costs. The resulting jointly-used regulated costs are then allocated between Oklahoma and Kansas in Staff Workpaper RB- 4.2

Office Furniture, Office Equipment and Computers, along with the associated Accumulated Depreciation, are allocated to non-regulated operations based upon the cumulative payroll distribution charged to non-regulated accounts for Inside (A&G) employees. The allocation is based upon Staff's review of Totah response No. 82, providing test period payroll distribution data as discussed earlier in Staff Adjustment RB- 3. The cumulative payroll percentage attributed to non-regulated operations for these employees is 12.32% as shown on Line 3 of Staff Workpaper RB-4.6. This percentage is further defined in Staff Workpaper RB- 4.7.

Motor Vehicles and Other Work Equipment, along with associated Accumulated Depreciation, are allocated to non-regulated operations based upon the cumulative payroll distribution charged to non-regulated accounts for Outside Plant Employees. The cumulative payroll percentage attributed to non-regulated operations for these employees is 4.49% as shown on Line 3 of Staff Workpaper RB-4.8 and as discussed in Staff Adjustment RB-3.

**Staff Workpaper 4.5**

Staff Workpaper 4.5 calculates the non-regulated percentage of land and buildings based upon Totah's revised floor space analysis provided to Staff in DR 83. Totah determined the floor space associated with each employee and then applied the employees' square footage to the corresponding employees' percentage of payroll distribution associated with non-regulated operations. The resulting calculation provides the weighted average percentage of floor space devoted to non-regulated operations on a total company basis. The overall non-regulated percentage was then carried forward to Staff Workpaper 4.2, where the regulated portion of land and building accounts is determined and allocated between Kansas and Oklahoma.

**Staff Workpaper 4.6**

Staff Workpaper 4.6 contains the payroll summary prepared by Staff that supports the non-regulated payroll percentages found in Staff Workpapers 4.3, 4.4 and 4.5 as well as Staff Adjustment RB-3. This workpaper outlines the payroll distribution for each employee during the test year, further segregated between inside and outside employees.

**Staff Workpapers 4.7 and 4.8**

Staff Workpapers 4.7 and 4.8 provide the cumulative payroll information for those employees identified as 'inside' and 'outside' employees, respectively. This data was accumulated by Staff from Totah's response to Staff Data Request 82. Staff's analysis indicates that the weighted average non-regulated payroll percentage for inside employees is 12.32% as shown on Page 2, line 14 of Staff Workpaper 4.7 and 4.49% for outside employees as shown on page 2, line 13 of Staff Workpaper 4.8.

**Q. Please explain Staff Adjustment RB-8.**

**A.** Staff Adjustment RB-8 increases Cash Working Capital (CWC) $5,801 on a total company basis or $1,663 on an intrastate basis. This adjustment is set forth on Staff Schedule A-3 and is a fallout adjustment based upon Staff's adjustments to operations and Rate Base.

Staff's adjustment differs from that presented by Totah in its application. First, as previously discussed in Staff adjustment RB- 3, Staff had reflected the regulated portion of the Accumulated Post Retirement Benefit Obligation as an offset since the accrual of the expense is a non-cash item. This is similar to depreciation expense. Next, Totah allocated its total CWC allowance to the interstate and intrastate jurisdictions, based on separations factors. In comparison, Staff calculated its CWC based on the calculated jurisdictional Rate Base, consistent with its approach in prior dockets.

**Q. Please address Staff Adjustment IS-1.**

A. Staff Adjustment IS-1 eliminates the credit recorded by Totah to account 7340, Allowance for Funds Used During Construction (AFUDC). This adjustment increases operating costs $69,401 on a total company basis, or $37,387 on an intrastate basis and is necessary to remove the operating expense credit that Totah has included in the application. AFUCD relates to interest and non-operating income that is accrued on Telephone Plant under Construction (TPUC). Staff Adjustment RB- 2 excludes TPUC from the determination of the Company's intrastate revenue requirement; therefore, the corresponding AFUDC should also be removed.

**Q. Please explain Staff Adjustment IS-2.**

**A** Staff Adjustment IS-2 reduces operating expenses $16,754 on a total company basis or $9,026 on an intrastate basis. This adjustment is necessary to properly reflect the allocation of GSF related operating costs to the Kansas jurisdiction. This adjustment is related to Staff Adjustment RB-4 and is computed in a similar manner. The supporting calculations for this adjustment are in Staff workpapers RB- 4.1 – RB- 4.8. The adjustment results from Staff's adjusted non-regulated allocation factor, the direct assignment of certain vehicle costs to Oklahoma, and the revised floor space analysis conducted by Totah.

**Q. Please discuss Staff Adjustment IS-3.**

A. Staff Adjustment IS-3 reduces charges to Account 6623, Billing and Collection Expense $2,214 on a total company basis, or $1,461 on an intrastate basis. This adjustment is necessary to properly allocate the costs to non-regulated operations associated with the costs of an outside vendor performing billing services on behalf of Totah.

Section 12 of Totah's filing includes its Cost Allocation Manual (CAM). The CAM, page 11, discusses the assignment of billing and collection costs to non-regulated operations. During the on-site visit discussions, it became apparent that the costs Totah assigned to non-regulated operations were understated. Totah performed a study, analyzing the outside vendor invoice and the line items related to non-regulated services. Then the ratable portion of costs associated with the billing for non-regulated services was determined. The results of this analysis were provided to Staff in DR 94, attached. Totah has indicated that it agrees with this Staff adjustment.

**Q. Does this complete your testimony?**

A. Yes.

**VERIFICATION**

STATE OF OKLAHOMA )
) ss:
COUNTY OF TULSA )

David N. Dittemore, being duly sworn upon his oath deposes and states, that he has read and is familiar with the foregoing *Testimony,* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

David N. Dittemore

David N. Dittemore
Consultant for Staff
State Corporation Commission of the
State of Kansas

SUBSCRIBED AND SWORN to before me this 6th day of October, 2005.

Donielle N. Sanders

Notary Public

My Appointment Expires: 6/14/09

DONIELLE N. SANDERS
NOTARY PUBLIC
COMM.# 01009959
EXPIRES 06/14/09
IN AND FOR STATE OF OKLAHOMA
TULSA COUNTY

The Following Staff Workpapers

Contain Company-Specific Confidential Information:

Workpaper RB 4-7

Workpaper RB 4-8

Workpaper IS-3

**Elimination of Potential Post Test Period Plant Additi**

| Line No. | Account No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | ********* | ************************ | ************* | ************** | ************** | ****************** |
| 1 | 2232 | Circuit Equipment | $ (425,000) | 0.392357 | $ (166,752) | Application Section 4 (i) |
| 2 | 2423 | Buried Cable | (400,000) | 0.675925 | (270,370) | Application Section 4 (i) |
| | | Reduction in Rate Base | $ (825,000) | | $ (437,122) | |

**Elimination of TPUC**

| Line No. | Account No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | *********** | ******************************** | ************ | ************* | ************ | ****************** |
| | | TPUC - Telephone Plant Under Construction | | | | |
| 1 | 2003 | Reduction in Rate Base | $ (6,326) | 0.538717 | $ (3,408) | Application, Section 4 (i) |

**Adjustment to Reflect OPEBs as a Rate Base Reduction**

| Line No. | Account No. | Description | Total Company | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | ************ | ************************************************** | ************** | ************** | ************ | ********************* |
| 1 | 4310 | Accumulated Post Retirement Benefit Obligation - KS | $ (316,612) | | | General Ledger Balance/Response to KCC Data Request 8 (h) used to determine separations. |
| 2 | | Non-Regulated Percentage | 8.63% | | | Staff Workpaper 3.1 |
| 3 | | Non-Regulated Portion of OPEB Liability | $ (27,316) | | | |
| 4 | | Regulated Portion of OPEB Liability | $ (289,296) | 0.538717 | $ (155,849) | |
| | | Reduction to Rate Base | | | $ (155,849) | |

**Allocation of Joint Assets to Kansas Operations**

| Line No. | Account No. | Description | Total Company Kansas | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | *********** | ********************************* | ************** | ************** | * * * * * * | *************** |
| | | **General Support Facility Assets** | | | | |
| | | | | | | **Staff Workpaper RB 4.1** |
| 1 | 2111 | LAND | $ 4,126 | 0.538717 | $ 2,223 | |
| 2 | 2112 | MOTOR VEHICLES | $ 14,743 | 0.538717 | $ 7,942 | |
| 3 | 2116 | OTHER WORK EQUIPMENT | $ (238) | 0.538717 | $ (128) | |
| 4 | 2121 | BUILDINGS | $ (11,517) | 0.538717 | $ (6,204) | |
| 5 | 2122 | FURNITURE | $ 3,737 | 0.538717 | $ 2,013 | |
| 6 | 2123 | OFFICE EQUIPMENT | $ (25,243) | 0.538717 | $ (13,599) | |
| 7 | 2124 | COMPUTERS | $ (4,351) | 0.538717 | $ (2,344) | |
| 8 | | TOTAL LAND AND SUPPORT ASSETS | $ (18,744) | | $ (10,097) | |
| | **3121.xxxx** | **Accumuluated Depreciation 3121.xxxx** | | | | |
| | | (Negative Amounts increase A/D Balance) | | | | |
| 9 | 0.2112 | MOTOR VEHICLES | $ (17,380) | 0.538717 | $ (9,363) | |
| 10 | 0.2116 | OTHER WORK EQUIPMENT | $ 238 | 0.538717 | $ 128 | |
| 11 | 0.2121 | BUILDINGS | $ (20,158) | 0.538717 | $ (10,860) | |
| 12 | 0.2122 | FURNITURE | $ (1,250) | 0.538717 | $ (673) | |
| 13 | 0.2123 | OFFICE EQUIPMENT | $ (1,257) | 0.538717 | $ (677) | |
| 14 | 0.2124 | COMPUTERS | $ 4,123 | 0.538717 | $ 2,221 | |
| | | | $ (35,685) | | $ (19,224) | |
| | 4340.xxxx | ***Accumulated Deferred Income Taxes*** | | | | |
| 15 | 0.2121 | BUILDINGS | $ 289 | 0.538717 | $ 156 | |
| 16 | 0.2112 | MOTOR VEHICLES | $ (708) | 0.538717 | $ (381) | |
| 17 | 0.2116 | OTHER WORK EQUIPMENT | $ (6,278) | 0.538717 | $ (3,382) | |
| 18 | 0.2122 | FURNITURE | $ (126) | 0.538717 | $ (68) | |
| 19 | 0.2123 | OFFICE EQUIPMENT | $ (52) | 0.538717 | $ (28) | |
| 20 | 0.2124 | COMPUTERS | $ 835 | 0.538717 | $ 450 | |
| 21 | | TOTAL DEFERRED TAXES | $ (6,039) | | $ (3,253) | |
| 22 | | Net Rate Base Impact | $ (60,467) | | $ (32,575) | |

**Summary of Staff Adjustments RB-4, IS-2**

| Line No. | Act. No. | Description | Totah State Allocation Adjustment | Staff Pro-Forma State Allocation | State Allocation Adjustment |
|---|---|---|---|---|---|
| | | | (a) | (b) | (c) (b-a) |
| | | **Assets** | | | |
| 1 | 2111 | LAND | $ 3,202 | $ 7,328 | $ 4,126 |
| 2 | 2112 | MOTOR VEHICLES | 56,601 | 71,344 | $ 14,743 |
| 3 | 2116 | OTHER WORK EQUIPMENT | 53,586 | 53,348 | $ (238) |
| 4 | 2121 | BUILDINGS | 189,774 | 178,257 | $ (11,517) |
| 5 | 2122 | FURNITURE | | 3,737 | $ 3,737 |
| 6 | 2123 | OFFICE EQUIPMENT | 78,236 | 52,993 | $ (25,243) |
| 7 | 2124 | COMPUTERS | 89,067 | 84,716 | $ (4,351) |
| 8 | | TOTAL LAND AND SUPPORT ASSETS | $ 470,466 | $ 451,722 | $ (18,744) |
| | | **Accumuluated Depreciation 3121.xxxx** | | | |
| | | (Negative Amounts increase A/D Balance) | | | |
| 9 | 0.2112 | MOTOR VEHICLES | (57,990) | $ (75,370) | $ (17,380) |
| 10 | 0.2116 | OTHER WORK EQUIPMENT | (53,586) | (53,348) | $ 238 |
| 11 | 0.2121 | BUILDINGS | (54,675) | (74,833) | $ (20,158) |
| 12 | 0.2122 | FURNITURE | | (1,250) | $ (1,250) |
| 13 | 0.2123 | OFFICE EQUIPMENT | (38,948) | (40,205) | $ (1,257) |
| 14 | 0.2124 | COMPUTERS | (84,400) | (80,277) | $ 4,123 |
| 15 | | TOTAL ACCUMULATED DEPRECIATION | $ (289,599) | $ (325,284) | $ (35,685) |
| | | **Deferred Taxes and Retained Earnings** | | | |
| | | (Negative Amounts increase ADIT Balance) | | | |
| 16 | 2112 | Vehicles | (1,910) | $ (1,621) | $ 289 |
| 17 | 2116 | Other Work Equipment | (1,808) | (2,516) | $ (708) |
| 18 | 2121 | Buildings | 31 | (6,247) | $ (6,278) |
| 19 | 2122 | Furniture | | (126) | $ (126) |
| 20 | 2123 | Office Equipment | (1,732) | (1,784) | $ (52) |
| 21 | 2124 | General Purpose Computers | (3,006) | (2,171) | $ 835 |
| 22 | | TOTAL DEFERRED TAXES | $ (8,425) | $ (14,464) | $ (6,039) |
| | | **Maintenance Expense** | | | |
| 23 | 6121 | Land and Buildings | 19,527 | $ 11,216 | $ (8,311) |
| 24 | 6112 | Motor Vehicles | 6,006 | 5,165 | $ (841) |
| 25 | 6116 | Other Work Equipment | 3,581 | 3,404 | $ (177) |
| 26 | 6122 | Furniture | | 789 | $ 789 |
| 27 | 6123 | Office Equipment | 9,806 | 6,429 | $ (3,377) |
| 28 | 6124 | Computers | 12,057 | 7,697 | $ (4,360) |
| 29 | | TOTAL MAINTENANCE COSTS | 50,977 | 34,701 | $ (16,276) |
| 30 | 7240 | Property Taxes | $ 3,403 | $ 2,925 | $ (478) |
| 31 | | Source: | Totah Adjustments Assets: TPA 4; | Staff Workpaper RB-2 | |

Totah Communications Inc.
Docket No. 05-TTHT-895-AUD
For the Test Year Ended December 31, 2004

Staff Workpaper RB 4.2
IS 2.2

Attachment DND-1

STATE ALLOCATIONS WORKSHEET
Allocation of Support Assets and Related Costs As Of December 31, 2004

**Identification of State Allocation %:**

| | | | | Oklahoma | | | Kansas | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ACCOUNT(S) | DESCRIPTION | Non-Regulated Source | Balance Per General Ledger (a) | Non-Regulated Amount (b) | Regulated Amount (c=a-b) | Balance Per General Ledger (d) | Non-Regulated Amount (e) | Regulated Amount (f=d-e) | Total Company Regulated (g=c+f) |
| 1 | 2212, 2232 | CENTRAL OFFICE EQUIPMENT | Non-Reg COE, L5,L1 | 4,580,187 | 41,533 | 4,538,654 | 3,244,232 | 15,000 | 3,229,232 | 7,767,886 |
| 2 | 2310 | INFO. ORIGINATION/TERMINATION ASSETS | N/A | - | - | - | - | - | - | - |
| 3 | 24XX | CABLE & WIRE FACILITIES | N/A | 9,892,347 | - | 9,892,347 | 6,580,505 | - | 6,580,505 | 16,472,853 |
| 4 | | TOTAL COE, IOT, & CW&F (L1+L2+L3) | | 14,472,534 | 41,533 | 14,431,001 | 9,824,738 | 15,000 | 9,809,738 | 24,240,739 |
| 5 | | % Distribution of Regulated Amounts | | N/A | N/A | 59.53% | N/A | N/A | 40.47% | 1 |

**Allocation of Jointly Used Support Assets:**

| | | | | Oklahoma | | | Kansas | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Account(s) | Description (Source, Col. (a)) | Non-Regulated & Other Sources | Total Amount (a) | Non-Regulated Amount (b) | Regulated Amount (c=a-b) | Total Amount (d) | Non-Regulated Amount (e) | Regulated Amount (f=d-e) | Joint Asset Cost (g=c+f) |
| | | <u>OCHELATA OFFICE BUILDING</u> | | | | | | | | |
| 6 | 2111 | LAND (LB SUM,L8) | Non-Reg LB, L22 | 19,929 | 1,820 | 18,109 | | | | |
| 7 | | State Allocation | L6c * L5 | | | 10,781 | | | 7,328 | |
| 8 | | Adjustment | L7 - L6 | | | (7,328) | | | 7,328 | |
| | | | Find DR 90 = Direct assign KS and OK pieces, then allocate remainder afer subtracting non-reg. | | | | | | | |
| 9 | 2121 | BUILDING (LB SUM,L23) | Non-Reg LB, L23 | 484,770 | 44,281 | 440,489 | | | | |
| 10 | | State Allocation | L9c * L5 | | | 262,232 | | | 178,257 | |
| 11 | | Adjustment | L10 - L9 | | | (178,257) | | | 178,257 | |
| | | <u>RELATED TRANSFERS</u> | | | | | | | | |
| 12 | 3121 | ACCUMULATED DEPRECIATION (Non Reg LB,L24) | Non Reg LB, L24b | 203,510 | 18,590 | 184,920 | | | | |
| 13 | | State Allocation | L12c * L5 | | | 110,087 | | | 74,833 | |
| 14 | | Adjustment | L13 - L12 | | | (74,833) | | | 74,833 | |
| 15 | 4349 | DEFERRED INCOME TAX (Non Reg LB, L25) | Non Reg LB, L25b | 16,988 | 1,552 | 15,437 | | | | |
| 16 | | State Allocation | L15c * L5 | | | 9,190 | | | 6,247 | |
| 17 | | Adjustment | L16 - L15 | | | (6,247) | | | 6,247 | |
| 18 | 6121 | MAINTENANCE EXPENSE (Non Reg LB, L27) | Non Reg LB, L27b | 30,501 | 2,786 | 27,715 | | | | |
| 19 | | State Allocation | L18c * L5 | | | 16,499 | | | 11,216 | |
| 20 | | Adjustment | L19 - L18 | | | (11,216) | | | 11,216 | |
| | 2112 | **<u>VEHICLES - Kansas Amounts in Col. D are Direct Assignments</u>** | | (A) | | | | | | |
| 21 | | Motor Vehicles (LB SUM,L4+L5) | See Calculation Below | 184,576 | 8,280 | 176,296 | 74,016 | 3,320 | 70,696 | |
| 22 | | State Allocation Adjustment | L24c*L5 | | | 104,953 | | | 71,344 | |
| | | <u>RELATED TRANSFERS</u> | | (B) | | | | | | |
| 23 | 3121 | ACCUMULATED DEPRECIATION (Non Reg LB,L9+10) | See Calculation Below | 194,994 | 8,747 | 186,247 | 74,016 | 3,320 | 70,696 | |
| 24 | | State Allocation | L26c*L5 | | | 110,876 | | | 75,370 | |
| 25 | 4349 | DEFERRED INCOME TAX (Non Reg LB, L14+15) | Non Reg V&WE, L14d+15d | 6,213 | 279 | 5,934 | 656 | 29 | 626 | |
| 26 | | Direct Assignment to Oklahoma | Ratio of Investment | 2,020 | 91 | 1,929 | | | | |
| 27 | | Net ADIT Subject to Allocation | L28-L29 | 4,193 | 188 | 4,005 | | | | |
| 28 | | State Allocation | | | | 2,384 | | | 1,621 | |

Totah Communications Inc.
Docket No. 05-TTHT-895-AUD
For the Test Year Ended December 31, 2004

Staff Workpaper RB 4.2
IS 2.2

Attachment DND-1

STATE ALLOCATIONS WORKSHEET
Allocation of Support Assets and Related Costs As Of December 31, 2004

**Identification of State Allocation %:**

| | | | | Oklahoma | | | Kansas | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ACCOUNT(S) | DESCRIPTION | Non-Regulated Source | Balance Per General Ledger (a) | Non-Regulated Amount (b) | Regulated Amount (c=a-b) | Balance Per General Ledger (d) | Non-Regulated Amount (e) | Regulated Amount (f=d-e) | Total Company Regulated (g=c+f) |
| 29 | 6112 | MAINTENANCE EXPENSE (Non Reg LB, L27) | Non Reg V&WE, L27b | 19,801 | 888 | 18,913 | 6,324 | 284 | 6,040 | 24,953 |
| 30 | | Direct Assignment to Oklahoma | Ratio of Investment | 6,437 | 289 | 6,148 | | | | |
| 31 | | Joint Maintenance Costs subject to Allocation | L28-L29 | 13,364 | 600 | 12,764 | | | | |
| 32 | | State Allocation | | | | 7,599 | | | 5,165 | |
| | 2116 | **OTHER WORK EQUIPMENT** | | | | | | | | |
| 33 | | Other Work equipment (Non-Reg V&WE,L6+L7+L8) | Non-Reg V&WE, L6d+7d+8d | 213,162 | 9,562 | 203,599 | 51,079 | 2,291 | 48,788 | 252,387 |
| 34 | | State Allocation | L33g * L5 | | | 150,251 | | | 102,136 | |
| 35 | | Adjustment | L34 - L33 | | | (53,348) | | | 53,348 | |
| | | RELATED TRANSFERS | | | | | | | | |
| 36 | 3121 | ACCUMULATED DEPRECIATION (Non-Reg V&WE,L9+L10+L11) | Non Reg V&WE, L9d+10d+11d | 213,162 | 9,562 | 203,599 | 51,079 | 2,291 | 48,788 | 252,387 |
| 37 | | State Allocation | L36g * L5 | | | 150,251 | | | 102,136 | |
| 38 | | Adjustment | L37 - L36 | | | (53,348) | | | 53,348 | |
| 39 | 4349 | DEFERRED INCOME TAX (Non-Reg V&WE, L16+17+18) | Non Reg V&WE, L16d+17d+18d | 7,175 | 322 | 6,853 | 452 | 20 | 432 | 7,285 |
| 40 | | State Allocation | L39g * L5 | | | 4,337 | | | 2,948 | |
| 41 | | Adjustment | L40 - L39 | | | (2,516) | | | 2,516 | |
| 42 | 6116 | MAINTENANCE EXPENSE (Non Reg V&WE, L26+L27+L28) | Non Reg V&WE, L26d+L27d+L28d | 11,701 | 525 | 11,176 | 1,967 | 88 | 1,879 | 13,055 |
| 43 | | State Allocation | L42g * L5 | | | 7,772 | | | 5,283 | |
| 44 | | Adjustment | L43 - L42 | | | (3,404) | | | 3,404 | |
| | 2112 | **Furniture** | | | | | | | | |
| 45 | | Furniture (Non-Reg F&OE,L4) | Non-Reg F&OE, L4c | 10,530 | 1,297 | 9,233 | | | | |
| 46 | | State Allocation | L45c * L5 | | | 5,497 | | | 3,737 | |
| 47 | | Adjustment | L46 - L45 | | | (3,737) | | | 3,737 | |
| | | RELATED TRANSFERS | | | | | | | | |
| 48 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L7) | Non-Reg F&OE, L7c | 3,522 | 434 | 3,088 | | | | |
| 49 | | State Allocation | L48c * L5 | | | 1,839 | | | 1,250 | |
| 50 | | Adjustment | L49 - L48 | | | (1,250) | | | 1,250 | |
| 51 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L10) | Non-Reg F&OE, L10c | 354 | 44 | 311 | | | | |
| 52 | | State Allocation | L51c * L5 | | | 185 | | | 126 | |
| 53 | | Adjustment | L52 - L51 | | | (126) | | | 126 | |
| 54 | 6122 | MAINTENANCE EXPENSE (Non Reg F&OE, L13) | Non-Reg F&OE, L13c | 2,224 | 274 | 1,950 | | | | |
| 55 | | State Allocation | L54c * L5 | | | 1,161 | | | 789 | |
| 56 | | Adjustment | L55 - L54 | | | (789) | | | 789 | |
| 57 | 2123 | **Office Equipment** | | | | | | | | |
| 58 | | Office Equipment (Non-Reg F&OE,L5) | Non-Reg F&OE, L5c | 149,344 | 18,394 | 130,950 | | | | |
| 59 | | State Allocation | L58c * L5 | | | 77,957 | | | 52,993 | |
| 60 | | Adjustment | L59 - L58 | | | (52,993) | | | 52,993 | |

STATE ALLOCATIONS WORKSHEET
Allocation of Support Assets and Related Costs As Of December 31, 2004

**Identification of State Allocation %:**

| | ACCOUNT(S) | DESCRIPTION | Non-Regulated Source | Oklahoma Balance Per General Ledger (a) | Oklahoma Non-Regulated Amount (b) | Oklahoma Regulated Amount (c=a-b) | Kansas Balance Per General Ledger (d) | Kansas Non-Regulated Amount (e) | Kansas Regulated Amount (f=d-e) | Total Company Regulated (g=c+f) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | RELATED TRANSFERS | | | | | | | | |
| 61 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L8) | Non-Reg F&OE, L8c | 113,305 | 13,956 | 99,350 | | | | |
| 62 | | State Allocation | L61c * L5 | | | 59,145 | | | 40,205 | |
| 63 | | Adjustment | L62 - L61 | | | (40,205) | | | 40,205 | |
| 64 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L11) | Non-Reg F&OE, L11c | 5,027 | 619 | 4,408 | | | | |
| 65 | | State Allocation | L64c * L5 | | | 2,624 | | | 1,784 | |
| 66 | | Adjustment | L65 - L64 | | | (1,784) | | | 1,784 | |
| 67 | 6123 | MAINTENANCE EXPENSE (Non Reg F&OE, L14) | Non-Reg F&OE, L14c | 18,119 | 2,232 | 15,887 | | | | |
| 68 | | State Allocation | L67c * L5 | | | 9,458 | | | 6,429 | |
| 69 | | Adjustment | L68 - L67 | | | (6,429) | | | 6,429 | |
| | 2124 | **Computers** | | | | | | | | |
| 70 | | Computers (Non-Reg F&OE,L6) | Non-Reg F&OE, L6c | 238,747 | 29,406 | 209,341 | | | | |
| 71 | | State Allocation | L70c * L5 | | | 124,625 | | | 84,716 | |
| 72 | | Adjustment | L71 - L70 | | | (84,716) | | | 84,716 | |
| | | RELATED TRANSFERS | | | | | | | | |
| 73 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L9) | Non-Reg F&OE, L9c | 226,237 | 27,865 | 198,372 | | | | |
| 74 | | State Allocation | L73c * L5 | | | 118,095 | | | 80,277 | |
| 75 | | Adjustment | L74 - L73 | | | (80,277) | | | 80,277 | |
| 76 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L12) | Non-Reg F&OE, L12c | 8,036 | 2,672 | 5,364 | | | | |
| 77 | | State Allocation | L76c * L5 | | | 3,193 | | | 2,171 | |
| 78 | | Adjustment | L77 - L76 | | | (2,171) | | | 2,171 | |
| 79 | 6124 | MAINTENANCE EXPENSE (Non Reg F&OE, L15) | Non-Reg F&OE, L15c | 21,692 | 2,672 | 19,021 | | | | |
| 80 | | State Allocation | L79c * L5 | | | 11,323 | | | 7,697 | |
| 81 | | Adjustment | L80 - L79 | | | (7,697) | | | 7,697 | |

(A)

| **Motor Vehicles** | | Acct 2112-10-1 |
|---|---|---|
| Gross Oklahoma Vehicles | 215,614 | Acct 2112-20-1 |
| Less: Oklahoma Direct Assignment | (70,094) | Totah Worksheet |
| Subtotal | 145,520 | |
| Plus: Heavy Trucks and Trailers | 39,056 | |
| Net Oklahoma subject to Kansas Assignment | 184,576 | |

(B)

| **Accumulated Depreciation - Motor Vehicles** | | |
|---|---|---|
| Gross Oklahoma Vehicles | 220,614 | Account 3121-11-1 |
| Less: Oklahoma Direct Assignment | (70,094) | Totah Worksheet |
| Subtotal | 150,520 | |
| Plus: Heavy Trucks and Trailers | 44,474 | |
| Net Oklahoma subject to Kansas Assignment | 194,994 | |

# TOTAH TELEPHONE COMPANY, INC.

ALLOCATION OF FURNITURE, OFFICE EQ. AND COMPUTERS TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

## TIME SUMMARY

( INSIDE COMMERCIAL AND ADMIN EMPLOYEES ONLY )

| | Description | Source | AMOUNT | PERCENTAGE |
|---|---|---|---|---|
| 1 | REGULATED ACTIVITIES | 2004 Timesheet Results | 22,053.98 | 87.68% |
| 2 | NON-REGULATED ACTIVITIES | 2004 Timesheet Results | 3,097.91 | 12.32% |
| 3 | TOTAL | L1+L2 | 25,151.89 | 100% |

## TOTAH - OKLAHOMA, ALLOCATIONS TO NON-REGULATED - FURNITURE, OFFICE EQUIPMENT AND COMPUTERS

| | Description | Source | TOTAL<br>(a) | PERCENTAGE<br>(b) | NON-REG.<br>(c=a*b) |
|---|---|---|---|---|---|
| 4 | OFFICE FURN. - (Ochelata - Commercial Office) | Acct 2122-10--1 | $10,530 | 0.123168 | ($1,297.01) |
| 5 | OFFICE EQUIP. - (Ochelata - Commercial Office) | Acct 2123-10--1 | 149,344 | 0.123168 | (18,394.45) |
| 6 | COMPUTERS | Accts 2124-10,15,20-1 | 238,747 | 0.123168 | (29,405.96) |
| 7 | ACCUM. DEPR. - OFFICE FURNITURE | Acct 3121-2210-1 | 3,522 | 0.123168 | (433.83) |
| 8 | ACCUM. DEPR. - OFFICE EQUIPMENT | Acct 3121-2310-1 | 113,305 | 0.123168 | (13,955.59) |
| 9 | ACCUM. DEPR. - COMPUTERS | Accts 3121-2410,2415,2420-1 | 226,237 | 0.123168 | (27,865.13) |
| 10 | ACCUM. DEFD.TAXES - OFFICE FURNITURE | Non Reg LB, L34*L4 | 354 | 0.123168 | (43.66) |
| 11 | ACCUM. DEFD.TAXES - OFFICE EQUIPMENT | Non Reg LB, L34*L5 | 5,027 | 0.123168 | (619.16) |
| 12 | ACCUM. DEFD.TAXES - COMPUTERS | Non Reg LB, L34*L6 | 8,036 | 0.123168 | (989.81) |
| 13 | FURNITURE EXPENSE | Acct 6122-10-1 | 2,224 | 0.123168 | (273.96) |
| 14 | OFFICE EQUIPMENT EXPENSE | Acct 6123-10,70-1 | 18,119 | 0.123168 | (2,231.62) |
| 15 | GENERAL COMPUTER EXPENSE | Acct 6124-10-2 | 21,692 | 0.123168 | (2,671.80) |
| 16 | DEPR. EXPENSE - OFFICE FURNITURE | Depreciation Records | 1,335 | 0.123168 | (164.44) |
| 17 | DEPR. EXPENSE - OFFICE EQUIPMENT | Depreciation Records | 23,445 | 0.123168 | (2,887.61) |
| 18 | DEPR. EXPENSE - COMPUTERS | Depreciation Records | 21,694 | 0.123168 | (2,672.05) |
| 19 | PROPERTY TAXES | (L4+L5+L6)*Non Reg LB, L36 | 2,581 | 0.123168 | (317.90) |

ALLOCATION OF VEHICLES & OTHER WORK EQUIPMENT TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

**TIME SUMMARY**

( OUTSIDE EMPLOYEES ONLY )

| | Description | Source | AMOUNT | PERCENTAGE |
|---|---|---|---|---|
| 1 | Regulated Activities | 2004 Timesheet Results | 21,400.99 | 0.955140 |
| 2 | Non-Regulated Activities | 2004 Timesheet Results | 1,005.15 | 0.044860 |
| 3 | TOTAL | L1+L2 | 22,406.14 | 1.000000 |

**TOTAH - OKLAHOMA, ALLOCATIONS TO NON-REGULATED - MOTOR VEHICLES AND OTHER WORK EQUIPMENT**

| | Description | Source | OKLAHOMA (a) | KANSAS (b) | PERCENTAGE (c) | Non - Regulated Allocations OKLAHOMA (d=a*c) | Non - Regulated Allocations KANSAS (e=b*c) |
|---|---|---|---|---|---|---|---|
| 4 | MOTOR VEHICLES - Pickups & Cars (OKLA) | Calculated joint vehicles in OK | $145,520 | $74,016 | 0.044860 | ($6,528.08) | ($3,320.38) |
| 5 | MOTOR VEHICLES - Heavy Trucks & Trailers | GL balances less OK dir. Asgn. | 39,056 | - | 0.044860 | $ (1,752.06) | $ - |
| 6 | OTHER WORK EQUIPMENT - Construction Equipment | Acct 2116-10-1,2 | 135,805 | 6,392 | 0.044860 | $ (6,092.27) | $ (286.75) |
| 7 | OTHER WORK EQUIPMENT - Tools | Acct 2116-20-1,2 | 66,720 | 42,135 | 0.044860 | $ (2,993.06) | $ (1,890.19) |
| 8 | OTHER WORK EQUIPMENT - Cellular Phones - Plant | Acct 2116-35-1,2 | 10,637 | 2,552 | 0.044860 | $ (477.17) | $ (114.48) |
| 9 | ACCUM. DEPR. - MOTOR VEHICLES - Pickups & Cars | Acct 3121-1210-1,2 | 150,520 | 74,016 | 0.044860 | $ (6,752.37) | $ (3,320.38) |
| 10 | ACCUM. DEPR. - MOTOR VEHICLES - Heavy Trucks & Trailers | Acct 3121-1220-1,2 | 44,474 | 0 | 0.044860 | $ (1,995.12) | $ - |
| 11 | ACCUM. DEPR. - O.W.E. - Construction Equipment | Acct 3121-1610-1,2 | 135,805 | 6,392 | 0.044860 | $ (6,092.27) | $ (286.75) |
| 12 | ACCUM. DEPR. - O.W.E. - Tools | Acct 3121-1620-1,2 | 66,720 | 42,135 | 0.044860 | $ (2,993.06) | $ (1,890.19) |
| 13 | ACCUM. DEPR. - O.W.E. - Cellular Phones - Plant | Acct 3121-1635-1,2 | 10,637 | 2,552 | 0.044860 | $ (477.17) | $ (114.48) |
| 14 | ACCUM. DEFD.TAXES - MOTOR VEH - Pickups & Cars | Non-Reg LB,L34*L4 | 4,898 | 656 | 0.044860 | $ (219.74) | $ (29.41) |
| 15 | ACCUM. DEFD.TAXES - MOTOR VEH - Heavy Trucks & Trailers | Non-Reg LB,L34*L5 | 1,315 | 0 | 0.044860 | $ (58.97) | $ - |
| 16 | ACCUM. DEFD.TAXES - O.W.E. - Construction Equipment | Non-Reg LB,L34*L6 | 4,571 | 57 | 0.044860 | $ (205.07) | $ (2.54) |
| 17 | ACCUM. DEFD.TAXES - O.W.E. - Tools | Non-Reg LB,L34*L7 | 2,246 | 373 | 0.044860 | $ (100.75) | $ (16.74) |
| 18 | ACCUM. DEFD.TAXES - O.W.E. - Cellular Phones - Plant | Non-Reg LB,L34*L8 | 358 | 23 | 0.044860 | $ (16.06) | $ (1.01) |
| 19 | DEPR. EXP. - MOTOR VEH - Pickups & Cars | Depreciation Records | 5,391 | 0 | 0.044860 | $ (241.86) | $ - |
| 20 | DEPR. EXP. - MOTOR VEH - Heavy Trucks & Trailers | Depreciation Records | (4,167) | 0 | 0.044860 | $ 186.93 | $ - |
| 21 | DEPR. EXPENSE - O.W.E. - Construction Equipment | Depreciation Records | 25,228 | 0 | 0.044860 | $ (1,131.73) | $ - |
| 22 | DEPR. EXPENSE - O.W.E. - Tools | Depreciation Records | 5,385 | 2,693 | 0.044860 | $ (241.59) | $ (120.80) |
| 23 | DEPR. EXPENSE - O.W.E. - Cellular Phones - Plant | Depreciation Records | 0 | 0 | 0.044860 | $ - | $ - |
| 24 | MOTOR VEHICLE EXP - PLANT | Acct 6112-10-1,2 | 9,190 | 1,603 | 0.044860 | $ (412.27) | $ (71.93) |
| 25 | MOTOR VEHICLE EXP - NON-PLANT | Acct 6112-20-1,2 | 10,611 | 4,721 | 0.044860 | $ (476.00) | $ (211.77) |
| 26 | EXPENSE - O.W.E. - Construction Equipment | Acct 6116-10-1,2 | 3,429 | 118 | 0.044860 | $ (153.83) | $ (5.27) |
| 27 | EXPENSE - O.W.E. - Tools | Acct 6116-20-1,2 | 4,105 | 708 | 0.044860 | $ (184.15) | $ (31.75) |
| 28 | EXPENSE - O.W.E. - Radio | Acct 6116-30-1,2 | 4,167 | 1,142 | 0.044860 | $ (186.94) | $ (51.22) |
| 29 | PROPERTY TAXES | (L4...L8)*Non Reg LB, L36 | 2,575 | 1,297 | 0.044860 | $ (115.53) | $ (58.17) |

ALLOCATION OF LAND AND BUILDING TO NON-REG. OPERATIONS
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

| | EMPLOYEE NAME | Totah Time Study Per Section 12: TOTAL SPACE * (a) | NON-REG PERCENTAGE (From Time Study) (b) | NON-REG SPACE (c) | Staff Per DR 82: Non-Reg % (d) | Non-Reg Space (e)(a*d) |
|---|---|---|---|---|---|---|
| 1 | Mark M. Gailey | 320 | 2.31% | 7.40 | 7.64% | 24 |
| 2 | Keith E. Watson | 240 | 0.00% | 0.00 | 5.77% | 14 |
| 3 | Dusty Harper | 240 | 0.00% | 0.00 | 0.23% | 1 |
| 4 | Andra M. Peterson | 91.75 | 2.28% | 2.09 | 4.43% | 4 |
| 5 | Adam Marsheck | 48 | 20.07% | 9.63 | 19.94% | 10 |
| 6 | Nancy F. Sarcoxie | 91.75 | 3.98% | 3.65 | 6.64% | 6 |
| 7 | Kelli A. Vaughan | 91.75 | 0.67% | 0.62 | 1.99% | 2 |
| 8 | Seronda R. Bryant | 120 | 9.22% | 11.06 | 23.77% | 29 |
| 9 | Amanda L. Scott | 91.75 | 2.28% | 2.09 | 3.75% | 3 |
| 10 | Peter A. Deibert | 96 | 48.83% | 46.88 | 54.20% | 52 |
| 11 | Kevin L. Graham | 96 | 0.17% | 0.16 | 3.85% | 4 |
| 12 | Genny A. Sarcoxie | 96 | 6.44% | 6.18 | 20.04% | 19 |
| 13 | 4th Person | 96 | 18.48% | 17.74 | 18.48% | 18 |
| 14 | Warden R. Foster | 99 | 7.59% | 7.51 | 11.85% | 12 |
| 15 | William K. Foster | 120 | 0.00% | 0.00 | 0.00% | 0 |
| 16 | Matthew S. Gailey | 99 | 4.20% | 4.16 | 6.74% | 7 |
| 17 | Michael R. Gailey | 99 | 0.00% | 0.00 | 0.06% | 0 |
| 18 | Bryant E. Sarcoxie | 99 | 0.00% | 0.00 | 0.61% | 1 |
| | | 2235 | | | | |
| 19 | TOTAL NON-REG SPACE (L1...L18) | | | 119 | | 204 |
| 20 | TOTAL OCCUPIED SQUARE FOOTAGE (L1...L18) | | | 2,235 | | 2,235 |
| 21 | PERCENTAGE OF OCHELATA L&B TO NON-REG (L19/L20) | | | 5.33% | | 9.13% |

* Represents the percentage of occupied space. See Analysis of Headquarters Building Floor Space. Shared office or work space was pro-rated over the employees occupying the space.

| | DESCRIPTION | TOTAL (a) | STAFF NON-REG (b=a*L21) |
|---|---|---|---|
| 22 | OCHELATA LAND - (HQ & COMM ONLY) | 19,929.45 | ($1,820.45) |
| 23 | OCHELATA BLDG - (HQ & COMM ONLY) | 484,770.00 | ($44,281.13) |
| 24 | ACCUMULATED DEPR. - OCHELATA | $203,509.75 | ($18,589.52) |
| 25 | DEFERRED TAXES - OCHELATA | $16,988.30 | ($1,551.79) |
| 26 | DEPRECIATION EXPENSE - OCHELATA | $16,966.95 | ($1,549.84) |
| 27 | LAND AND BUILDING EXPENSE | $30,501.39 | ($2,786.14) |
| 28 | PROPERTY TAXES | $3,267.89 | ($298.50) |

| | DESCRIPTION | OK TOTAL | KS TOTAL |
|---|---|---|---|
| | **Factors for Deferred Income Taxes, Land and Building Expenses and Property Taxes** | | |
| 29 | DEFERRED INCOME TAXES | $ 548,858 | $ 89,702 |
| 30 | LAND AND BUILDING EXPENSE | $ 53,543 | N/A |
| 31 | PROPERTY TAXES | $ 105,579 | $ 104,966 |
| 32 | TELEPHONE PLANT IN SERVICE | $ 16,305,827 | $ 10,126,625 |
| 33 | BUILDING INVESTMENT | $ 850,976 | N/A |
| 34 | DEFERRED INCOME TAX FACTOR | 0.033660 | 0.008858 |
| 35 | LAND AND BUILDING EXP FACTOR | 0.062919 | N/A |
| 36 | PROPERTY TAX FACTOR | 0.006475 | 0.010365 |

Staff Workpaper RB 4.6 | Attachment DND-1

Totah Communications, Inc.
Docket No. 05-TTHT-895-AUD
For Test Year Ended December 31, 2004

Summary
Labor Distribution
Regulated - Non-Reg.

| Line No. | Description | | Regulated Percent | Non-Reg. Percent |
|---|---|---|---|---|
| | **Inside Employees:** | | | |
| 1 | Regulated Hours | 22,053.98 | | |
| 2 | Non-Reg. Hours | 3,097.91 | | |
| 3 | SubTotal | 25,151.89 | 87.68% | 12.32% |
| 4 | Per Company, Section 12 | | 92.19% | 7.81% |
| 5 | Difference | | -4.50% | 4.50% |
| | **Outside Employees:** | | | |
| 6 | Regulated Hours | 21,400.99 | | |
| 7 | Non-Reg. Hours | 1,005.15 | | |
| 8 | SubTotal | 22,406.14 | 95.51% | 4.49% |
| 9 | Per Company, Section 12 | | 95.94% | 4.06% |
| 10 | Difference | | -0.43% | 0.43% |
| 11 | **Composite:** | | | |
| 12 | Total Regulated Hours | 43,454.98 | | |
| 13 | Total Non-Reg. Hours | 4,103.05 | | |
| 14 | Total | 47,558.03 | 91.37% | 8.63% |

**Source: Staff Workpaper RB-7**

## Analysis of Test Period Payroll for Outside Employees

| Line No. | Outside Plant Employee | NONREG Other A/R - 1190.210.00 | TPUC Oklahoma 2003.301 | TPUC Kansas 2003.302 | Oklahoma General Support 61xx.101 | Kansas General Support 61xx.102 | Oklahoma Digital/Circuit Equipment 62XX.101 | Kansas Digital/Circuit Equipment 62XX.102 | Oklahoma C&WF Expense 64xx.101 | Kansas C&WF Expense 64xx.102 | Oklahoma Network Operations 65XX.101 | Kansas Network Operations 65xx.02 | Oklahoma Customer Services 66XX.X01 | Kansas Customer Services 66XX.X02 | Non-Reg. Oklahoma Corporate Operations 6721.111 | Non-Reg. Kansas Corporate Operations 6721.112 | Oklahoma Corporate Operations 671X.101 | Kansas Corporate Operations 671X.102 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Adrian L. Morgan | | | | | | | | | | | | | | | | | |
| 2 | Michael A. Sanders | | | | | | | | | | | | | | | | | |
| 3 | Timothy L. Branscum | | | | | | | | | | | | | | | | | |
| 4 | Warden R. Foster | | | | | | | | | | | | | | | | | |
| 5 | Wess L. Foster | | | | | | | | | | | | | | | | | |
| 6 | William K. Foster | | | | | | | | | | | | | | | | | |
| 7 | Matthew S. Gailey | | | | | | | | | | | | | | | | | |
| 8 | Michael R. Gailey | | | | | | | | | | | | | | | | | |
| 9 | Bryant E. Sarcoxie | | | | | | | | | | | | | | | | | |
| 10 | Dustin J. Harper | | | | | | | | | | | | | | | | | |
| 11 | Adam Marshek | | | | | | | | | | | | | | | | | |
| 12 | TOTAL | | | | | | | | | | | | | | | | | |
| 13 | PERCENTAGE | | | | | | | | | | | | | | | | | |

Notes and Sources:
Totah's Filing, Section 12
Totah's Response to DR 11

**Analysis of Test Year Payroll Charges for Inside Employees**

| Line No. | Inside Office Employee | | NONREG Other A/R - 1190.21 | TPUC Oklahoma 2003.301 | TPUC Kansas 2003.302 | Oklahoma General Support 61xx.101 | Kansas General Support 61xx.102 | Oklahoma Digital/Circuit Equipment 62XX.101 | Kansas Digital/Circuit Equipment 62XX.102 | Oklahoma C&WF Expense 64xx.101 | Kansas C&WF Expense 64xx.102 | Oklahoma Network Operations 65XX.101 | Kansas Network Operations 65xx.02 | Oklahoma Customer Services 66XX.X01 | Kansas Customer Services 66XX.X02 | Non-Reg. Oklahoma Corporate Operations 6721.111 | Non-Reg. Kansas Corporation Operations 6721.112 | Oklahoma Corporate Operations 671X.101 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Mark M. Gailey | * | | | | | | | | | | | | | | | | |
| 2 | Peter A. Deibert | * | | | | | | | | | | | | | | | | |
| 3 | Kevin L. Graham | * | | | | | | | | | | | | | | | | |
| 4 | Amanda L. Scott | * | | | | | | | | | | | | | | | | |
| 5 | Andra M. Peterson | * | | | | | | | | | | | | | | | | |
| 6 | Genny A. Sarcoxie | * | | | | | | | | | | | | | | | | |
| 7 | Nancy F. Sarcoxie | * | | | | | | | | | | | | | | | | |
| 8 | Kelli A. Vaughan | * | | | | | | | | | | | | | | | | |
| 9 | Keith E. Watson | * | | | | | | | | | | | | | | | | |
| 10 | Seronda R. Bryant | * | | | | | | | | | | | | | | | | |
| 11 | Dustin J. Harper | * | | | | | | | | | | | | | | | | |
| 12 | Adam Marshek | * | | | | | | | | | | | | | | | | |
| 13 | TOTAL | * | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | PERCENTAGE | * | | | | | | | | | | | | | | | | |

## Analysis of Test Year Payroll Charges for Inside Employees

| Inside Office Employee | Kansas Corporate Operations 671X.102 | Oklahoma Corporate Operations 672X.101 | Kansas Corporate Operations 672X.102 | Holidays Vacations Sick Time Oklahoma | Holidays Vacations Sick Time Kansas | Total | Total | Productive Time Regulated | Productive Time Non-Reg. | Non-Productive Time Regulated | Non-Productive Time Non-Reg. | Total Time Regulated | Total Time Non-Reg. | Allocation Regulated | Allocation Non-Reg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mark M. Gailey | | | | | | - | - | | | | | | | | |
| Peter A. Deibert | | | | | | - | - | | | | | | | | |
| Kevin L. Graham | | | | | | - | - | | | | | | | | |
| Amanda L. Scott | | | | | | - | - | | | | | | | | |
| Andra M. Peterson | | | | | | - | - | | | | | | | | |
| Genny A. Sarcoxie | | | | | | - | - | | | | | | | | |
| Nancy F. Sarcoxie | | | | | | - | - | | | | | | | | |
| Kelli A. Vaughan | | | | | | - | - | | | | | | | | |
| Keith E. Watson | | | | | | - | - | | | | | | | | |
| Seronda R. Bryant | | | | | | - | - | | | | | | | | |
| Dustin J. Harper | | | | | | - | - | | | | | | | | |
| Adam Marshek | | | | | | - | - | | | | | | | | |
| TOTAL | - | - | - | - | - | - | - | - | - | - | - | - | - | | |
| PERCENTAGE | | | | | | | | | | | | 87.68% | 12.32% | | |

## Analysis of Test Period Payroll for Outside Employees

| Outside Plant Employee | Oklahoma Corporate Operations 672X.101 | Kansas Corporate Operations 672X.102 | Holidays Vacations Sick Time Oklahoma | Holidays Vacations Sick Time Kansas | Total | Total | Productive Time Regulated | Productive Time Non-Reg. | Non-Productive Time Regulated | Non-Productive Time Non-Reg. | Total Time Regulated | Total Time Non-Reg. | Allocation Regulated | Allocation Non-Reg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Adrian L. Morgan | | | | | | | | | | | | | | |
| Michael A. Sanders | | | | | | | | | | | | | | |
| Timothy L. Branscum | | | | | | | | | | | | | | |
| Warden R. Foster | | | | | | | | | | | | | | |
| Wess L. Foster | | | | | | | | | | | | | | |
| William K. Foster | | | | | | | | | | | | | | |
| Matthew S. Gailey | | | | | | | | | | | | | | |
| Michael R. Gailey | | | | | | | | | | | | | | |
| Bryant E. Sarcoxie | | | | | | | | | | | | | | |
| Dustin J. Harper | | | | | | | | | | | | | | |
| Adam Marshek | | | | | | | | | | | | | | |
| TOTAL | - | - | - | - | - | - | - | - | - | - | | | | |
| PERCENTAGE | | | | | | | | | | | 95.51% | 4.49% | | |

**Adjustment to Remove AFUDC Credit from Operating Expense**

| Line No. | Account No. | Description | Total Company Kansas | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | ******** | ****************************************** | ************* | *********** | ************* | *************** |
| 1 | 7340 | Allowance for Funds Used During Construction | $ 69,401 | 0.538717 | $ 37,387 | Totah Application, Section 9, page 2, Line 36 |
| | | Adjustment to Increase Operating Expense | | | $ 37,387 | |

**Adjustment to Correct Totah's Assignment of Joint Costs to Kansas Operations**

| Line No. | Account No. | Description | Total Company Kansas | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | ******** | ********************************** | ************ | ************ | ************ | ********** |
| | | **Maintenance Expense** | | | | |
| 1 | 6121 | Land and Buildings | $ (8,311) | 0.538717 | $ (4,477) | RB-4 |
| 2 | 6112 | Motor Vehicles | $ (841) | 0.538717 | $ (453) | |
| 3 | 6116 | Other Work Equipment | $ (177) | 0.538717 | $ (95) | |
| 4 | 6122 | Furniture | $ 789 | 0.538717 | $ 425 | |
| 5 | 6123 | Office Equipment | $ (3,377) | 0.538717 | $ (1,819) | |
| 6 | 6124 | Computers | $ (4,360) | 0.538717 | $ (2,349) | |
| 7 | | Total Maintenance Costs | $ (16,276) | | $ (8,768) | |
| 8 | 7240 | Property Taxes | $ (478) | 0.538717 | $ (258) | |
| 9 | | Total Operating Expense Decrease | $ (16,754) | | $ (9,026) | |

Totah Communications Inc.
Docket No. 05-TTHT-895-AUD
For the Test Year Ended December 31, 2004

Staff Workpaper IS-3
REDACTED

Attachment DND-1

**Adjustment to Assign Billing and Collection costs to Non-regulated Operations**

| Line No. | Account No. | Description | Total Company Kansas | Intrastate Separations | Intrastate Adjustment | Source |
|---|---|---|---|---|---|---|
| *** | ************* | ***************************************** | ************* | ********** | ************** | *************** |
| 1 | 6623 | Reduction in Billing and Collection Expense | $ (2,214) | 0.660058 | $ (1,461) | Line 15 |
| 2 | | **Supporting Billing and Collection Calculation** | | | | **Totah DR 94** |
| 3 | | Total December 2004 B&C Vendor Costs | * | * | | |
| 4 | | Total Users (Line Items) | * | * | | |
| | | | * | * | | |
| 5 | | Cost Per User | * | * | | |
| 6 | | Non - Reg Users | | | | |
| 7 | | Inside Wire Users | * | * | | |
| 8 | | Internet Users | * | * | | |
| 9 | | Other | * | * | | |
| 10 | | Voice Mail | * | * | | |
| 11 | | Grand Total Users | * | * | | |
| 12 | | Monthly Non-Regulated Costs | * | * | | |
| 13 | | Annual Non-Regulated Costs | | $ 3,114 | | |
| 14 | | Less: Kansas Non-Regulated Charges recorded by Totah | | $ (900) | Application Section 12 | |
| 15 | | Decrease to Billing and Collection Expense | | $ 2,214 | | |

The Following Data Request Responses

Contain Company-Specific Confidential Information:

DR 11

DR 94

**Kansas Corporation Commission**
Information Request

Request No: **81**

| | | |
|---|---|---|
| Company Name | TOTAH COMMUNICATIONS, INC. | TTHT |
| Docket Number | 05-TTHT-895-AUD | |
| Request Date | July 20, 2005 | |
| Date Information Needed | July 29, 2005 | |

RE: Other Post Retirement Benefits (OPEBs), DR 8, Audited Financials, Note 8

**Please Provide the Following:**

The company's audited financial statements, Note 8, addresses the company's post retirement benefits, including the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). The company's response to DR 8 addresses its Other PostRetirement Benefits, per FASB 106.

a. Please confirm Staff's understanding that the amount of the pending subsidy will not be made known to Totah until the end of the 2005 calendar year. If Staff's understanding cannot be confirmed, please provide a detailed narrative explanation regarding why not.

b. Please confirm Staff's understanding that of the total OPEBs accrued liability of $955,703, $316,612 is assigned to Kansas, per the company's 2004 General Ledger, Account 4310102, and tax information provided to Staff. If this cannot be confirmed, please provide a detailed explanation as to why not and include the account references and amounts supporting why Staff's understanding is incorrect.

c. Please confirm Staff's understanding that the company recorded total expenses for its Kansas operations of $44,687 during the 2004 test year, with such expense essentially following payroll dollars. If this cannot be confirmed, please explain why not.

d. Please confirm Staff's understanding that the company is amortizing its Transitional Benefit Obligation over a 20 year period, and thus, $35,586 was amortized during the 2004 test year, of which approximately $10,725 was reflected on the company's 2004 Kansas jurisdictional books. If this cannot be confirmed, please explain why not, and provide any supporting documentation.

Submitted By REAMS/MCCULLAR

Submitted To GAILEY/MORRISSEY

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

KANSAS CORPORATION COMMISSION
JUL 29 2005
UTILITIES DIVISION

Signed: Mark M. Gailey

Date: 7/28/05

Answer:

a. If Staff is referring to accruals to recognize expenses and related liabilities accounted for in accordance with FAS 106, it is true that amounts for 2005 are pending. The Company does not receive a subsidy for post retirement benefits. In fact, the Company has not sought recovery through rates of expense increases associated with recognition of FAS 106.

b. Staff's understanding regarding the accrued OPEB liability is correct.

c. Staff's understanding concerning accrued expenses is correct.

d. Staff's understanding concerning the transition benefit obligation is correct.

√

**Kansas Corporation Commission**

Information Request

Request No: **83**

| | | |
|---|---|---|
| Company Name | TOTAH COMMUNICATIONS, INC. | TTHT |
| Docket Number | 05-TTHT-895-AUD | |
| Request Date | July 20, 2005 | |
| Date Information Needed | July 29, 2005 | |

RE: Section 12, Oct. 2004 Time Study

**Please Provide the Following:**

1. Please provide an electronic copy of the October 2004 Time Studies contained in Section 12 of the company's filing.

2. Please provide an electronic copy of all studies, including the Special Studies, B&C Studies, etc. referenced in Section 12 of the company's filing.

Submitted By REAMS/MCCULLAR

Submitted To GAILEY/MORRISSEY

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

KANSAS CORPORATION COMMISSION
JUL 29 2005
UTILITIES DIVISION

Signed: [signature]

Date: 8/28/05

Answer:

1. An electronic copy of the October, 2004 time study is included on the enclosed disc.

2. Electronic copies of studies referred to in Section 12 are included on the enclosed disc. This information is confidential since it includes financially and employee sensitive information. Since the initial filing, the company has made revisions to the studies that identify non-regulated costs and identify state allocations of costs associated with jointly used assets. The revised studies are being provided in response to this request. The Company has also prepared a new B&C study that identifies costs associated with billing on behalf of Totel CSI. An electronic copy of the B&C study is also attached. Electronic files containing the studies consist of:

   - Studies associated with original submission file on June 1, 2005.
     i. "DR83_REG_NONREG_ALLOC_Totah_2004"
     ii. "DR83_Reg_NONREG_Land&Building_SUM_Totah_2004"
     iii. "DR83_TOTAH_State_Alloc_2004"

   - Revision of Studies listed above – "DR83_REG_NONREG_Totah"

   - Analysis of B&C costs associated with billing on behalf of TOTEL CSI – "Totel B&C."

# TOTAH TELEPHONE COMPANY, INC.

ALLOCATION OF GENERAL SUPPORT ASSETS TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

Prepared by FW&A, Inc.
05/07/2005

TIME SUMMARY ( INSIDE EMPLOYEES ONLY )

| | AMOUNT | PERCENTAGE |
|---|---|---|
| REGULATED ACTIVITIES | 1,529 | 0.921870 |
| NON-REGULATED ACTIVITIES | 130 | 0.078130 |
| TOTAL | 1,658 | 1.000000 |

Property taxes to be allocated to General Support Assets:

| | |
|---|---|
| Investment in General Support Assets (Ochelata - Commercial Office) | $398,622 |
| Total Telephone Plant In Service | $16,305,827 |
| PERCENTAGE | 0.024447 |
| Total Property Taxes | $105,579 |
| Property taxes allocated to General Support Assets (Ochelata - Commercial Office) | $2,581 |

TOTAH - OKLAHOMA, SUMMARY OF ALLOCATIONS TO NON-REGULATED

| | TOTAL | PERCENTAGE | NON-REG. | |
|---|---|---|---|---|
| OFFICE FURN. - (Ochelata - Commercial Office) | $10,530 | 0.078130 | ($822.74) | TPA # 2 |
| OFFICE EQUIP. - (Ochelata - Commercial Office) | 149,344 | 0.078130 | (11,668.22) | " |
| COMPUTERS | 238,747 | 0.078130 | (18,653.19) | " |
| ACCUM. DEPR. - OFFICE FURNITURE | 3,522 | 0.078130 | (275.19) | " |
| ACCUM. DEPR. - OFFICE EQUIPMENT | 113,305 | 0.078130 | (8,852.50) | " |
| ACCUM. DEPR. - COMPUTERS | 226,237 | 0.078130 | (17,675.79) | " |
| ACCUM. DEFD.TAXES - OFFICE FURNITURE | 355 | 0.078130 | (27.76) | " |
| ACCUM. DEFD.TAXES - OFFICE EQUIPMENT | 5,040 | 0.078130 | (393.74) | " |
| ACCUM. DEFD.TAXES - COMPUTERS | 8,056 | 0.078130 | (629.45) | " |
| FURNITURE EXPENSE | 2,224 | 0.078130 | (173.78) | SSA # 6 |
| OFFICE EQUIPMENT EXPENSE | 18,119 | 0.078130 | (1,415.59) | " |
| GENERAL COMPUTER EXPENSE | 21,692 | 0.078130 | (1,694.81) | " |
| DEPR. EXPENSE - OFFICE FURNITURE | 1,335 | 0.078130 | (104.31) | " |
| DEPR. EXPENSE - OFFICE EQUIPMENT | 23,445 | 0.078130 | (1,831.71) | " |
| DEPR. EXPENSE - COMPUTERS | 21,694 | 0.078130 | (1,694.97) | " |
| PROPERTY TAXES | 2,581 | 0.078130 | (201.66) | " |

# TOTAH TELEPHONE COMPANY, INC.

ALLOCATION OF VEHICLES & OTHER WORK EQUIPMENT TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004 05/07/2005

TIME SUMMARY ( OUTSIDE EMPLOYEES ONLY )

| | AMOUNT | PERCENTAGE |
|---|---|---|
| Regulated Activities | 1,754.61 | 0.959393 |
| Non-Regulated Activities | 74.27 | 0.040607 |
| TOTAL | 1,828.88 | 1.000000 |

Property taxes to be allocated to Motor Vehicles & Other Work Equipment:

| | OKLAHOMA | KANSAS |
|---|---|---|
| Investment in Motor Vehicles & Other Work Equipment | $467,832 | $467,832 |
| Total Telephone Plant In Service | $16,305,827 | 10,126,625 |
| PERCENTAGE | 0.028691 | 0.046198 |
| Total Property Taxes | $105,579 | $104,966 |
| Property taxes allocated to Motor Vehicles & Other Work Equipment | $3,029 | $4,849 |

SUMMARY OF ALLOCATIONS TO NON-REGULATED

| | OKLAHOMA | KANSAS | PERCENTAGE | Non - Regulated Allocations OKLAHOMA | KANSAS | |
|---|---|---|---|---|---|---|
| MOTOR VEHICLES - Pickups & Cars (OKLA) | $215,614 | $74,016 | 0.040607 | ($8,755.43) | ($3,005.56) | TPA # 3 |
| MOTOR VEHICLES - Heavy Trucks & Trailers | 39,056 | - | 0.040607 | (1,585.95) | 0.00 | " |
| OTHER WORK EQUIPMENT - Construction Equipment | 135,805 | 6,392 | 0.040607 | (5,514.64) | (259.56) | " |
| OTHER WORK EQUIPMENT - Tools | 66,720 | 42,135 | 0.040607 | (2,709.28) | (1,710.97) | " |
| OTHER WORK EQUIPMENT - Cellular Phones - Plant | 10,637 | 2,552 | 0.040607 | (431.92) | (103.63) | " |
| ACCUM. DEPR. - MOTOR VEHICLES - Pickups & Cars | 220,614 | 74,016 | 0.040607 | (8,958.46) | (3,005.56) | " |
| ACCUM. DEPR. - MOTOR VEHICLES - Heavy Trucks & T | 40,307 | 0 | 0.040607 | (1,636.72) | 0.00 | " |
| ACCUM. DEPR. - O.W.E. - Construction Equipment | 135,805 | 6,392 | 0.040607 | (5,514.64) | (259.56) | " |
| ACCUM. DEPR. - O.W.E. - Tools | 66,720 | 42,135 | 0.040607 | (2,709.28) | (1,710.97) | " |
| ACCUM. DEPR. - O.W.E. - Cellular Phones - Plant | 10,637 | 2,552 | 0.040607 | (431.92) | (103.63) | " |
| ACCUM. DEFD.TAXES - MOTOR VEH - Pickups & Cars | 7,276 | 656 | 0.040607 | (295.45) | (26.65) | " |
| ACCUM. DEFD.TAXES - MOTOR VEH - Heavy Trucks & | 1,318 | 0 | 0.040607 | (53.52) | 0.00 | " |
| ACCUM. DEFD.TAXES - O.W.E. - Construction Equipmer | 4,583 | 57 | 0.040607 | (186.09) | (2.30) | " |
| ACCUM. DEFD.TAXES - O.W.E. - Tools | 2,251 | 374 | 0.040607 | (91.42) | (15.17) | " |
| ACCUM. DEFD.TAXES - O.W.E. - Cellular Phones - Plant | 359 | 23 | 0.040607 | (14.58) | (0.92) | " |
| DEPR. EXP. - MOTOR VEH - Pickups & Cars | 5,391 | 0 | 0.040607 | (218.93) | 0.00 | SSA # 7 |
| DEPR. EXP. - MOTOR VEH - Heavy Trucks & Trailers | (4,167) | 0 | 0.040607 | 169.21 | 0.00 | " |
| DEPR. EXPENSE - O.W.E. - Construction Equipment | 25,228 | 0 | 0.040607 | (1,024.43) | 0.00 | " |
| DEPR. EXPENSE - O.W.E. - Tools | 5,385 | 2,693 | 0.040607 | (218.69) | (109.34) | " |
| DEPR. EXPENSE - O.W.E. - Cellular Phones - Plant | 0 | 0 | 0.040607 | 0.00 | 0.00 | " |
| PROPERTY TAXES | 3,029 | 4,849 | 0.040607 | (123.01) | (196.91) | " |

# TOTAH TELEPHONE COMPANY, INC.
## ALLOCATION OF CENTRAL OFFICE EQUIPMENT TO NON-REGULATED ACTIVITIES
## STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

| **TOTAH - KANSAS** | | **Nonregulated** | | |
|---|---|---|---|---|
| **Nonregulated Adjustment related to Voicemail:** | **Total** | **Adjustments** | **% nonreg** | **TPA/SSA** |
| 2232 COE Circuit: | $1,014,189.10 | ($15,000.00) | -1.48% | TPA #2 |
| 3100.2232 Accumulated Depreciation: | $628,710.26 | ($9,298.71) | | TPA #2 |
| 4340 Deferred Taxes | $8,994.10 | ($133.02) | | TPA #2 |
| 6561.2232 Depreciation Expense | $73,958.35 | ($1,093.85) | | SSA #5 |

| **TOTAH - OKLAHOMA** | | **Nonregulated** | | |
|---|---|---|---|---|
| **Nonregulated Adjustment related to Voicemail & Conference Bridge:** | **Total** | **Adjustments** | **% nonreg** | **TPA/SSA** |
| 2232 COE Circuit: | $2,054,154.78 | ($41,532.77) | -2.02% | TPA #5 |
| 3100.2232 Accumulated Depreciation: | $1,103,072.57 | ($22,302.92) | | TPA #5 |
| 4340 Deferred Taxes | $69,317.19 | ($1,401.52) | | TPA #5 |
| 6561.2232 Depreciation Expense | $121,110.23 | ($2,448.72) | | SSA #8 |

## TOTAH TELEPHONE COMPANY, INC. - OKLAHOMA

LBSUM.XLS
SUMMARY OF LAND AND BUILDINGS
Prepared by FW&A, Inc.
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004
5/6/2005

ANALYSIS OF SPACE USAGE - OCHELATA H.Q. BUILDING
SOURCE : FLOOR DIAGRAM AND SPACE USAGE ANALYSIS

| | |
|---|---|
| TOTAL SQUARE FOOTAGE | **4,744.00** |

| | |
|---|---|
| DIRECTLY ASSIGNED TO CENTRAL OFFICE EQUIPMENT | **1,454.00** |
| DIRECTLY ASSIGNED TO COMMERCIAL & ADMIN. OPERATIONS | **1,700.00** |
| STORAGE, RESTROOMS, HALLWAYS & OTHER COMMON AREAS | **1,590.00** |

| RATIO OF COMMERCIAL/ADMIN. TO C.O. EQUIP. | | |
|---|---|---|
| CENTRAL OFFICE EQUIPMENT | 1,454.00 | 0.461002 |
| COMMERCIAL & ADMIN. OPERATIONS | 1,700.00 | 0.538998 |
| TOTAL | 3,154.00 | 1.000000 |

CALCULATION OF LAND AND BUILDING INVESTMENTS
APPORTIONABLE BETWEEN OKLAHOMA AND KANSAS

| | TOTAL | TO NON-REG. (TPA # 2) | NET TOTAL | ALLOCABLE % 0.538998 |
|---|---|---|---|---|
| OCHELATA H.Q. BLDG. | 637,549.45 | 8,703.01 | 646,252.46 | 348,328.78 |
| LAND ASSIGNED TO H.Q. | 9,642.13 | 146.83 | 9,788.96 | 5,276.23 |

## TOTAH TELEPHONE COMPANY, INC.

ALLOCATION OF LAND AND BUILDING TO NON-REG. OPERATIONS
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

| EMPLOYEE NAME | TOTAL SPACE | NON-REG PERCENTAGE (From Time Study) | NON-REG SPACE |
|---|---|---|---|
| Mark M. Gailey | 285.00 | 2.31% | 6.59 |
| Keith E. Watson | 240.00 | 0.00% | 0.00 |
| Dusty Harper | 240.00 | 0.00% | 0.00 |
| Andra M. Peterson | 130.00 | 2.28% | 2.96 |
| Adam Marsheck | 36.00 | 20.07% | 7.22 |
| Nancy F. Sarcoxie | 99.00 | 3.98% | 3.94 |
| Kelli A. Vaughan | 90.00 | 0.67% | 0.60 |
| Seronda R. Bryant | 130.00 | 9.22% | 11.99 |
| Amanda L. Scott | 48.00 | 2.28% | 1.09 |
| Peter A. Deibert | 96.00 | 48.83% | 46.88 |
| Kevin L. Graham | 96.00 | 0.17% | 0.16 |
| Genny A. Sarcoxie | 64.00 | 6.44% | 4.12 |
| 4th Person | 64.00 | 18.48% | 11.83 |
| TOTAL NON-REG SPACE | | | 97.40 |
| TOTAL ASSIGNED SQUARE FOOTAGE | | | 7,135 |
| PERCENTAGE OF OCHELATA L&B TO NON-REG | | | 1.37% |

| | | TOTAL | NON-REG |
|---|---|---|---|
| OCHELATA LAND - (HQ & CO ONLY) | TPA #1 | $10,756.00 | ($146.83) |
| OCHELATA BLDG - (HQ & CO ONLY) | TPA #1 | $637,549.45 | ($8,703.01) |
| ACCUMULATED DEPR. - OCHELATA | TPA #1 | $186,223.11 | ($2,542.08) |
| DEFERRED TAXES - OCHELATA | TPA #1 | $7,552.90 | ($103.10) |
| DEPRECIATION EXPENSE - OCHELATA | SSA #5 | $23,927.40 | ($326.63) |

| | | |
|---|---|---|
| COMMERCIAL BUILDING - OCHELATA (COST) | | 637,549.45 |
| TOTAL BUILDING INVESTMENT | | 850,976.17 |
| RELATIVE PERCENTAGE | | 74.92% |
| RELATIVE L & B RELATED EXPENSES TO NON-REG | | 1.02% |
| | TOTAL | NON-REG |
| LAND & BUILDING EXPENSE (OKLAHOMA) SSA #5 | $53,542.83 | ($547.59) |

| | | |
|---|---|---|
| COMMERCIAL BUILDING - OCHELATA (COST) | | 637,549.45 |
| TOTAL PLANT IN SERVICE INVESTMENT | | 16,305,827.07 |
| RELATIVE PERCENTAGE | | 3.91% |
| RELATIVE L & B PROPERTY TAXES RELATED EXPENSES TO NON-REG | | 0.05% |
| | TOTAL | NON-REG |
| LAND & BUILDING PROPERTY TAX EXPENSE (OKLAHOMA) SSA #5 | $105,578.93 | ($56.35) |

## TOTAH TELEPHONE COMPANY, INC. - OKLAHOMA

LB_SUM.XLS
ALLOCATION & SUMMARY OF OCHELATA - LAND
Prepared by FW&A, Inc.
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004
7/14/2005

| | | | Amount |
|---|---|---|---|
| 1. TOTAL LAND COSTS PER GENERAL LEDGER (Account 2111-10-1) | | | $40,897.59 |
| LESS SPECIFICALLY IDENTIFIED COSTS (1) | | | |
| 2. LAND FOR COS OTHER THAN OCHELATA | | | 350.00 |
| 3. 91 LAND PURCHASE (WAREHOUSE) | LOTS 28,29,30 OF BLOCK 2 | | 12,274.00 |
| 4. POLEYARD | LOTS 7,8,9,10,11 OF BLOCK 4 | | 2,063.20 |
| 5. INVESTMENT REMAINING TO BE ALLOCATED (L1-L2-L3-L4) | | | $26,210.39 |

| ALLOCATION OF HEADQUARTERS AND COE LAND | % (2) | Amount |
|---|---|---|
| 6. NETWORK OPERATIONS | 32.02% | 8,393.32 |
| 7. HQ AND COMMERCIAL | 44.01% | 11,536.13 |
| 8. TOTAL - JOINT OK AND KS OPERATIONS (L6+L7) | 76.04% | 19,929.45 |
| '9. OCHELATA COE | 23.96% | 6,280.94 |
| 10. TOTAL (L8+L9) | 100.00% | 26,210.39 |

(1) These costs are identified from underlying property records of the Company.

(2) Percentages are based on an analysis of the Ochelata HQ and COE Building Floor Space. See Analysis of Headquarters Building Floor Space for details.

## TOTAH TELEPHONE COMPANY, INC. - OKLAHOMA

LBSUM.XLS
SUMMARY OF LAND AND BUILDINGS
Prepared by FW&A, Inc.
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004
7/14/2005

BUILDING SUMMARY

| EXCHANGE / DESCRIPTION | BEGINNING BALANCE | ADDITIONS | RETIREMENTS | ENDING BALANCE |
|---|---|---|---|---|
| 11. BURBANK - C.O. | $8,282.33 | | | $8,282.33 |
| 12. LENEPAH - C.O. | 12,694.39 | | | 12,694.39 |
| 13. - WAREHOUSE | 7,324.44 | | | 7,324.44 |
| 14. OCHELATA - H.Q. & C.O. | 280,001.70 | 357,547.75 | | 637,549.45 |
| 15. - WAREHOUSE | 108,856.25 | | | 108,856.25 |
| 16. - STORAGE/POLE YARD | 4,746.89 | | | 4,746.89 |
| 17. OGELSBY - C.O. | 16,565.39 | | | 16,565.39 |
| 18. TALALA - C.O. | 23,688.71 | | | 23,688.71 |
| 19. WANN - C.O. | 31,268.32 | | | 31,268.32 |
| 20. TOTAL - GL Account 2121 (OK) | $493,428.42 | $357,547.75 | $0.00 | $850,976.17 |

| ALLOCATION OF HEADQUARTERS AND COE BUILDING | % (2) | Amount |
|---|---|---|
| 21. NETWORK OPERATIONS | 32.02% | 204,161.65 |
| 22. HQ AND COMMERCIAL | 44.01% | 280,608.34 |
| 23. TOTAL - JOINT OK AND KS OPERATIONS (L6+L7) | 76.04% | 484,770.00 |
| 24. OCHELATA COE | 23.96% | 152,779.45 |
| 25. TOTAL (L23+L24) | 100.00% | 637,549.45 |

| CALCULATION OF DEPRECIATION RESERVE FACTOR - OKLAHOMA HQ&COMM. BUILDING | |
|---|---|
| 26. RESERVED | |
| 27. 3121-2140-1 | 89,869.05 |
| 28. 3121-2150-1 | 186,223.11 |
| 29. TOTAL RESERVES-BUILDINGS (L27+L28) | 276,092.16 |
| 30. 2121-10-1 OTHER BUILDING INVESTMENT | 433,841.07 |
| 31. 2121-50-1 COMMERCIAL BUILDING INVESTMENT | 223,823.70 |
| 32. TOTAL RELATED BUILDING INVESTMENT | 657,664.77 |
| 33. DEPRECIATION RESERVE RATIO (L29/L32) | 41.98% |

# TOTAH TELEPHONE COMPANY, INC.

ALLOCATION OF LAND AND BUILDING TO NON-REG. OPERATIONS
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

Non Reg LB
Prepared by FW&A, Inc.
7/14/2005

| | EMPLOYEE NAME | Sources | TOTAL SPACE * | NON-REG PERCENTAGE (From Time Study) | NON-REG SPACE |
|---|---|---|---|---|---|
| 1 | Mark M. Gailey | HQ Bldg Study, 10/2005 Time Study | 320.00 | 2.31% | 7.40 |
| 2 | Keith E. Watson | HQ Bldg Study, 10/2005 Time Study | 240.00 | 0.00% | 0.00 |
| 3 | Dusty Harper | HQ Bldg Study, 10/2005 Time Study | 240.00 | 0.00% | 0.00 |
| 4 | Andra M. Peterson | HQ Bldg Study, 10/2005 Time Study | 91.75 | 2.28% | 2.09 |
| 5 | Adam Marsheck | HQ Bldg Study, 10/2005 Time Study | 48.00 | 20.07% | 9.63 |
| 6 | Nancy F. Sarcoxie | HQ Bldg Study, 10/2005 Time Study | 91.75 | 3.98% | 3.65 |
| 7 | Kelli A. Vaughan | HQ Bldg Study, 10/2005 Time Study | 91.75 | 0.67% | 0.62 |
| 8 | Seronda R. Bryant | HQ Bldg Study, 10/2005 Time Study | 120.00 | 9.22% | 11.06 |
| 9 | Amanda L. Scott | HQ Bldg Study, 10/2005 Time Study | 91.75 | 2.28% | 2.09 |
| 10 | Peter A. Deibert | HQ Bldg Study, 10/2005 Time Study | 96.00 | 48.83% | 46.88 |
| 11 | Kevin L. Graham | HQ Bldg Study, 10/2005 Time Study | 96.00 | 0.17% | 0.16 |
| 12 | Genny A. Sarcoxie | HQ Bldg Study, 10/2005 Time Study | 96.00 | 6.44% | 6.18 |
| 13 | 4th Person | HQ Bldg Study, Estimate | 96.00 | 18.48% | 17.74 |
| 14 | Warden R. Foster | HQ Bldg Study, 10/2005 Time Study | 99.00 | 7.59% | 7.51 |
| 15 | William K. Foster | HQ Bldg Study, 10/2005 Time Study | 120.00 | 0.00% | 0.00 |
| 16 | Matthew S. Gailey | HQ Bldg Study, 10/2005 Time Study | 99.00 | 4.20% | 4.16 |
| 17 | Michael R. Gailey | HQ Bldg Study, 10/2005 Time Study | 99.00 | 0.00% | 0.00 |
| 18 | Bryant E. Sarcoxie | HQ Bldg Study, 10/2005 Time Study | 99.00 | 0.00% | 0.00 |
| | | | 2,235.00 | | |
| 19 | TOTAL NON-REG SPACE (L1...L18) | | | | 119 |
| 20 | TOTAL OCCUPIED SQUARE FOOTAGE (L1...L18) | | | | 2,235 |
| 21 | PERCENTAGE OF OCHELATA L&B TO NON-REG (L19/L20) | | | | 5.33% |

* Represents the percentage of occupied space. See Analysis of Headquarters Building Floor Space. Shared office or work space was pro-rated over the employees occupying the space.

| | DESCRIPTION | SOURCE | TOTAL (a) | NON-REG (b=a*L21) | |
|---|---|---|---|---|---|
| 22 | OCHELATA LAND - (HQ & COMM ONLY) | LB_SUM, L8 | 19,929.45 | ($1,062.81) | TPA #1 (Oklahoma) |
| 23 | OCHELATA BLDG - (HQ & COMM ONLY) | LB_SUM, L23 | 484,770.00 | ($25,852.11) | TPA #1 (Oklahoma) |
| 24 | ACCUMULATED DEPR. - OCHELATA | L23*LB_SUM,L33 | $203,509.75 | ($10,852.89) | TPA #1 (Oklahoma) |
| 25 | DEFERRED TAXES - OCHELATA | (L22+L23)*L34 | $16,988.30 | ($905.96) | TPA #1 (Oklahoma) |
| 26 | DEPRECIATION EXPENSE - OCHELATA | L23*3.5% (Deprec Rate) | $16,966.95 | ($904.82) | SSA #5 (Oklahoma) |
| 27 | LAND AND BUILDING EXPENSE | L23*L35 | $30,501.39 | ($1,626.60) | SSA #5 (Oklahoma) |
| 28 | PROPERTY TAXES | (L22+L23)*L36 | $3,267.89 | ($174.27) | SSA #5 (Oklahoma) |

| | DESCRIPTION | SOURCE | OK TOTAL | KS TOTAL |
|---|---|---|---|---|
| | **Factors for Deferred Income Taxes, Land and Building Expenses and Property Taxes** | | | |
| 29 | DEFERRED INCOME TAXES | Accts 4349-82-1+4348-83-1 | 548,858.00 | 89,702.00 |
| 30 | LAND AND BUILDING EXPENSE | Acct 6121-10-1 | 53,542.83 | N/A |
| 31 | PROPERTY TAXES | Acct 7240-20-1 | 105,578.93 | 104,966.00 |
| 32 | TELEPHONE PLANT IN SERVICE | Acct 2001 | 16,305,827.00 | 10,126,625.00 |
| 33 | BUILDING INVESTMENT | Accts 2121-10,40,50-1 | 850,976.17 | N/A |
| 34 | DEFERRED INCOME TAX FACTOR | L29/L32 | 0.033660 | 0.008858 |
| 35 | LAND AND BUILDING EXP FACTOR | L30/L33 | 0.062919 | N/A |
| 36 | PROPERTY TAX FACTOR | L31/L32 | 0.006475 | 0.010365 |

TOTAH TELEPHONE COMPANY, INC.
ALLOCATION OF FURNITURE, OFFICE EQ. AND COMPUTERS TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

Non-Reg F&OE
Prepared by FW&A, Inc.
07/19/2005

**TIME SUMMARY**

( INSIDE COMMERCIAL AND ADMIN EMPLOYEES ONLY )

| | Description | Source | AMOUNT | PERCENTAGE |
|---|---|---|---|---|
| 1 | REGULATED ACTIVITIES | 10/2005 Time Study | 1,529 | 0.921870 |
| 2 | NON-REGULATED ACTIVITIES | 10/2005 Time Study | 130 | **0.078130** |
| 3 | TOTAL | L1+L2 | 1,658 | 1.000000 |

**TOTAH - OKLAHOMA, ALLOCATIONS TO NON-REGULATED - FURNITURE, OFFICE EQUIPMENT AND COMPUTERS**

| | Description | Source | TOTAL (a) | PERCENTAGE (b) | NON-REG. (c=a*b) | |
|---|---|---|---|---|---|---|
| 4 | OFFICE FURN. - (Ochelata - Commercial Office) | Acct 2122-10--1 | $10,530 | 0.078130 | ($822.74) | TPA # 2 |
| 5 | OFFICE EQUIP. - (Ochelata - Commercial Office) | Acct 2123-10--1 | 149,344 | 0.078130 | (11,668.22) | " |
| 6 | COMPUTERS | Accts 2124-10,15,20-1 | 238,747 | 0.078130 | (18,653.19) | " |
| 7 | ACCUM. DEPR. - OFFICE FURNITURE | Acct 3121-2210-1 | 3,522 | 0.078130 | (275.19) | " |
| 8 | ACCUM. DEPR. - OFFICE EQUIPMENT | Acct 3121-2310-1 | 113,305 | 0.078130 | (8,852.50) | " |
| 9 | ACCUM. DEPR. - COMPUTERS | Accts 3121-2410,2415,2420-1 | 226,237 | 0.078130 | (17,675.79) | " |
| 10 | ACCUM. DEFD.TAXES - OFFICE FURNITURE | Non Reg LB, L34*L4 | 354 | 0.078130 | (27.69) | " |
| 11 | ACCUM. DEFD.TAXES - OFFICE EQUIPMENT | Non Reg LB, L34*L5 | 5,027 | 0.078130 | (392.75) | " |
| 12 | ACCUM. DEFD.TAXES - COMPUTERS | Non Reg LB, L34*L6 | 8,036 | 0.078130 | (627.87) | " |
| 13 | FURNITURE EXPENSE | Acct 6122-10-1 | 2,224 | 0.078130 | (173.78) | SSA # 6 |
| 14 | OFFICE EQUIPMENT EXPENSE | Acct 6123-10,70-1 | 18,119 | 0.078130 | (1,415.59) | " |
| 15 | GENERAL COMPUTER EXPENSE | Acct 6124-10-2 | 21,692 | 0.078130 | (1,694.81) | " |
| 16 | DEPR. EXPENSE - OFFICE FURNITURE | Depreciation Records | 1,335 | 0.078130 | (104.31) | " |
| 17 | DEPR. EXPENSE - OFFICE EQUIPMENT | Depreciation Records | 23,445 | 0.078130 | (1,831.71) | " |
| 18 | DEPR. EXPENSE - COMPUTERS | Depreciation Records | 21,694 | 0.078130 | (1,694.97) | " |
| 19 | PROPERTY TAXES | (L4+L5+L6)*Non Reg LB, L36 | 2,581 | 0.078130 | (201.66) | " |

TOTAH TELEPHONE COMPANY, INC.
ALLOCATION OF VEHICLES & OTHER WORK EQUIPMENT TO NON-REGULATED ACTIVITIES
STUDY FOR THE YEAR ENDED DECEMBER 31, 2004

Non-Reg V&WE
FW&A
07/19/05

**TIME SUMMARY**

( OUTSIDE EMPLOYEES ONLY )

| | Description | Source | AMOUNT | PERCENTAGE |
|---|---|---|---|---|
| 1 | Regulated Activities | 10/2005 Time Study | 1,754.61 | 0.959393 |
| 2 | Non-Regulated Activities | 10/2005 Time Study | 74.27 | 0.040607 |
| 3 | TOTAL | L1+L2 | 1,828.88 | 1.000000 |

**TOTAH - OKLAHOMA ALLOCATIONS TO NON-REGULATED - MOTOR VEHICLES AND OTHER WORK EQUIPMENT**

| | Description | Source | OKLAHOMA (a) | KANSAS (b) | PERCENTAGE (c) | Non - Regulated Allocations OKLAHOMA (d=a*c) | Non - Regulated Allocations KANSAS (e=b*c) | |
|---|---|---|---|---|---|---|---|---|
| 4 | MOTOR VEHICLES - Pickups & Cars (OKLA) | Acct 2112-10-1,2 | $215,614 | $74,016 | 0.040607 | ($8,755.43) | ($3,005.56) | TPA # 3 |
| 5 | MOTOR VEHICLES - Heavy Trucks & Trailers | Acct 2112-20-1 | 39,056 | - | 0.040607 | (1,585.95) | 0.00 | " |
| 6 | OTHER WORK EQUIPMENT - Construction Equipment | Acct 2116-10-1,2 | 135,805 | 6,392 | 0.040607 | (5,514.64) | (259.56) | " |
| 7 | OTHER WORK EQUIPMENT - Tools | Acct 2116-20-1,2 | 66,720 | 42,135 | 0.040607 | (2,709.28) | (1,710.97) | " |
| 8 | OTHER WORK EQUIPMENT - Cellular Phones - Plant | Acct 2116-35-1,2 | 10,637 | 2,552 | 0.040607 | (431.92) | (103.63) | " |
| 9 | ACCUM. DEPR. - MOTOR VEHICLES - Pickups & Cars | Acct 3121-1210-1,2 | 220,614 | 74,016 | 0.040607 | (8,958.46) | (3,005.56) | " |
| 10 | ACCUM. DEPR. - MOTOR VEHICLES - Heavy Trucks & Trailers | Acct 3121-1220-1,2 | 40,307 | 0 | 0.040607 | (1,636.72) | 0.00 | " |
| 11 | ACCUM. DEPR. - O.W.E. - Construction Equipment | Acct 3121-1610-1,2 | 135,805 | 6,392 | 0.040607 | (5,514.64) | (259.56) | " |
| 12 | ACCUM. DEPR. - O.W.E. - Tools | Acct 3121-1620-1,2 | 66,720 | 42,135 | 0.040607 | (2,709.28) | (1,710.97) | " |
| 13 | ACCUM. DEPR. - O.W.E. - Cellular Phones - Plant | Acct 3121-1635-1,2 | 10,637 | 2,552 | 0.040607 | (431.92) | (103.63) | " |
| 14 | ACCUM. DEFD.TAXES - MOTOR VEH - Pickups & Cars | Non-Reg LB,L34*L4 | 7,258 | 656 | 0.040607 | (294.71) | (26.62) | " |
| 15 | ACCUM. DEFD.TAXES - MOTOR VEH - Heavy Trucks & Trailers | Non-Reg LB,L34*L5 | 1,315 | 0 | 0.040607 | (53.38) | 0.00 | " |
| 16 | ACCUM. DEFD.TAXES - O.W.E. - Construction Equipment | Non-Reg LB,L34*L6 | 4,571 | 57 | 0.040607 | (185.62) | (2.30) | " |
| 17 | ACCUM. DEFD.TAXES - O.W.E. - Tools | Non-Reg LB,L34*L7 | 2,246 | 373 | 0.040607 | (91.19) | (15.16) | " |
| 18 | ACCUM. DEFD.TAXES - O.W.E. - Cellular Phones - Plant | Non-Reg LB,L34*L8 | 358 | 23 | 0.040607 | (14.54) | (0.92) | " |
| 19 | DEPR. EXP. - MOTOR VEH - Pickups & Cars | Depreciation Records | 5,391 | 0 | 0.040607 | (218.93) | 0.00 | SSA # 7 |
| 20 | DEPR. EXP. - MOTOR VEH - Heavy Trucks & Trailers | Depreciation Records | (4,167) | 0 | 0.040607 | 169.21 | 0.00 | " |
| 21 | DEPR. EXPENSE - O.W.E. - Construction Equipment | Depreciation Records | 25,228 | 0 | 0.040607 | (1,024.43) | 0.00 | " |
| 22 | DEPR. EXPENSE - O.W.E. - Tools | Depreciation Records | 5,385 | 2,693 | 0.040607 | (218.69) | (109.34) | " |
| 23 | DEPR. EXPENSE - O.W.E. - Cellular Phones - Plant | Depreciation Records | 0 | 0 | 0.040607 | 0.00 | 0.00 | " |
| 24 | MOTOR VEHICLE EXP - PLANT | Acct 6112-10-1,2 | 9,190 | 1,603 | 0.040607 | (373.18) | (65.11) | SSA # 7 |
| 25 | MOTOR VEHICLE EXP - NON-PLANT | Acct 6112-20-1,2 | 10,611 | 4,721 | 0.040607 | (430.87) | (191.69) | " |
| 26 | EXPENSE - O.W.E. - Construction Equipment | Acct 6116-10-1,2 | 3,429 | 118 | 0.040607 | (139.25) | (4.77) | " |
| 27 | EXPENSE - O.W.E. - Tools | Acct 6116-20-1,2 | 4,105 | 708 | 0.040607 | (166.69) | (28.74) | " |
| 28 | EXPENSE - O.W.E. - Radio | Acct 6116-30-1,2 | 4,167 | 1,142 | 0.040607 | (169.22) | (46.36) | " |
| 29 | PROPERTY TAXES | (L4...L8)*Non Reg LB, L36 | 3,029 | 1,297 | 0.040607 | (123.01) | (52.65) | " |

**TOTAH TELEPHONE COMPANY, INC.**
**ALLOCATION OF CENTRAL OFFICE EQUIPMENT TO NON-REGULATED ACTIVITIES**
**STUDY FOR THE YEAR ENDED DECEMBER 31, 2004**

Non-Reg COE
FW&A
07/19/05

**Nonregulated Adjustment related to Voicemail:**
**TOTAH - KANSAS**

| | Account/Description | Source | Total (a) | Nonregulated Adjustments (b=a*c) | % Non-Reg (c=b/a) | |
|---|---|---|---|---|---|---|
| 1 | 2232 COE Circuit: | GL Account 2232 | $1,014,189.10 | ($15,000.00) | -1.48% | TPA #2 |
| 2 | 3122 Accumulated Depreciation | GL Account 3122 | $628,710.26 | ($9,298.71) | | TPA #2 |
| 3 | 4340 Deferred Taxes | L1*Non-Reg LB, L34 | $8,983.72 | ($132.87) | | TPA #2 |
| 4 | 6561.2232 Depreciation Expense | Depreciation Records | $73,958.35 | ($1,093.85) | | SSA #5 |

Note: Non-Regulated COE Circuit investment was identified based on the vendor invoice.

**Nonregulated Adjustment related to Voicemail & Conference Bridge:**
**TOTAH - OKLAHOMA**

| | Account/Description | Source | Total (a) | Nonregulated Adjustments (b=a*c) | % Non-Reg (c=b/a) | |
|---|---|---|---|---|---|---|
| 5 | 2232 COE Circuit: | GL Account 2232 | $2,054,154.78 | ($41,532.77) | -2.02% | TPA #5 |
| 6 | 3100.2232 Accumulated Depreciation: | GL Account 3122 | $1,103,072.57 | ($22,302.92) | | TPA #5 |
| 7 | 4340 Deferred Taxes | L5*Non-Reg LB, L34 | $69,143.34 | ($1,398.00) | | TPA #5 |
| 8 | 6561.2232 Depreciation Expense | Depreciation Records | $121,110.23 | ($2,448.72) | | SSA #8 |

Note: Non-Regulated COE Circuit investment was identified based on the vendor invoice.

# TOTAH TELEPHONE COMPANY, INC.

STATE ALLOCATIONS WORKSHEET
Allocation of Support Assets and Related Costs As Of December 31, 2004

GSF State Alloc.
FW&A
7/19/2005

**Identification of State Allocation %:**

| Line | ACCOUNT(S) | DESCRIPTION | Non-Regulated Source | Oklahoma | | | Kansas | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Balance Per General Ledger (a) | Non-Regulated Amount (b) | Regulated Amount (c=a-b) | Balance Per General Ledger (d) | Non-Regulated Amount (e) | Regulated Amount (f=d-e) |
| 1 | 2212, 2232 | CENTRAL OFFICE EQUIPMENT | Non-Reg COE, L5,L1 | 4,580,187.00 | 41,532.77 | 4,538,654.23 | 3,244,232.14 | 15,000.00 | 3,229,232.14 |
| 2 | 2310 | INFO. ORIGINATION/TERMINATION ASSETS | N/A | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3 | 24XX | CABLE & WIRE FACILITIES | N/A | 9,892,347.25 | 0.00 | 9,892,347.25 | 6,580,505.47 | 0.00 | 6,580,505.47 |
| 4 | | TOTAL COE, IOT, & CW&F (L1+L2+L3) | | 14,472,534.25 | 41,532.77 | 14,431,001.48 | 9,824,737.61 | 15,000.00 | 9,809,737.61 |
| 5 | | % Distribution of Regulated Amounts | | N/A | N/A | 59.53% | N/A | N/A | 40.47% |

**Allocation of Jointly Used Support Assets:**

| Line | Account(s) | Description (Source, Col. (a)) | Non-Regulated & Other Sources | Oklahoma | | | Kansas |
|---|---|---|---|---|---|---|---|
| | | | | Total Amount (a) | Non-Regulated Amount (b) | Regulated Amount (c=a-b) | Regulated Amount (d) |
| | | OCHELATA OFFICE BUILDING | | | | | |
| 6 | 2111 | LAND (LB SUM,L8) | Non-Reg LB, L22 | 19,929.45 | 1,062.81 | 18,866.64 | |
| 7 | | State Allocation | L6c * L5 | | | 11,231.69 | 7,634.95 |
| 8 | | Adjustment | L7 - L6 | | | (7,634.95) | 7,634.95 |
| 9 | 2121 | BUILDING (LB SUM,L23) | Non-Reg LB, L23 | 484,770.00 | 25,852.11 | 458,917.89 | |
| 10 | | State Allocation | L9c * L5 | | | 273,203.09 | 185,714.80 |
| 11 | | Adjustment | L10 - L9 | | | (185,714.80) | 185,714.80 |
| | | RELATED TRANSFERS | | | | | |
| 12 | 3121 | ACCUMULATED DEPRECIATION (Non Reg LB,L24) | Non Reg LB, L24b | 203,509.75 | 10,852.89 | 192,656.86 | |
| 13 | | State Allocation | L12c * L5 | | | 114,692.52 | 77,964.34 |
| 14 | | Adjustment | L13 - L12 | | | (77,964.34) | 77,964.34 |
| 15 | 4349 | DEFERRED INCOME TAX (Non Reg LB, L25) | Non Reg LB, L25b | 16,988.30 | 905.96 | 16,082.34 | |
| 16 | | State Allocation | L15c * L5 | | | 9,574.14 | 6,508.20 |
| 17 | | Adjustment | L16 - L15 | | | (6,508.20) | 6,508.20 |
| 18 | 6561 | DEPRECIATION EXPENSE (Non Reg LB, L26) | Non Reg LB, L26b | 16,966.95 | 904.82 | 16,062.13 | |
| 19 | | State Allocation | L18c * L5 | | | 9,562.11 | 6,500.02 |
| 20 | | Adjustment | L19 - L18 | | | (6,500.02) | 6,500.02 |
| 21 | 6121 | MAINTENANCE EXPENSE (Non Reg LB, L27) | Non Reg LB, L27b | 30,501.39 | 1,626.60 | 28,874.80 | |
| 22 | | State Allocation | L21c * L5 | | | 17,189.75 | 11,685.05 |
| 23 | | Adjustment | L22 - L21 | | | (11,685.05) | 11,685.05 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2112 | **VEHICLES** | | | | | |
| 24 | | Motor Vehicles (LB SUM,L4+L5) | Non-Reg V&WE, L4d+5d | 254,670.49 | 10,341.37 | 244,329.12 | |
| 25 | | State Allocation | L24c * L5 | | | 145,454.06 | 98,875.06 |
| 26 | | Adjustment | L25 - L24 | | | (98,875.06) | 98,875.06 |
| | | RELATED TRANSFERS | | | | | |
| 27 | 3121 | ACCUMULATED DEPRECIATION (Non Reg LB,L9+10) | Non Reg V&WE, L9d+10d | 260,920.91 | 10,595.18 | 250,325.73 | |
| 28 | | State Allocation | L27c * L5 | | | 149,023.96 | 101,301.77 |
| 29 | | Adjustment | L28 - L27 | | | (101,301.77) | 101,301.77 |
| 30 | 4349 | DEFERRED INCOME TAX (Non Reg LB, L14+15) | Non Reg V&WE, L14d+15d | 8,572.27 | 348.09 | 8,224.18 | |
| 31 | | State Allocation | L30c * L5 | | | 4,896.02 | 3,328.16 |
| 32 | | Adjustment | L31 - L30 | | | (3,328.16) | 3,328.16 |
| 33 | 6561 | DEPRECIATION EXPENSE (Non Reg LB, L19+L20) | Non Reg V&WE, L19d+20d | 1,224.47 | 49.72 | 1,174.75 | |
| 34 | | State Allocation | L33c *L5 | | | 699.35 | 475.40 |
| 35 | | Adjustment | L34 - L33 | | | (475.40) | 475.40 |
| 36 | 6112 | MAINTENANCE EXPENSE (Non Reg LB, L27) | Non Reg V&WE, L27b | 19,800.92 | 804.05 | 18,996.87 | |
| 37 | | State Allocation | L36c *L5 | | | 11,309.22 | 7,687.65 |
| 38 | | Adjustment | L37 - L36 | | | (7,687.65) | 7,687.65 |
| | 2116 | **OTHER WORK EQUIPMENT** | | | | | |
| 39 | | Other Work equipment (Non-Reg V&WE,L6+L7+L8) | Non-Reg V&WE, L6d+7d+8d | 213,161.87 | 8,655.84 | 204,506.03 | |
| 40 | | State Allocation | L39c *L5 | | | 121,746.57 | 82,759.46 |
| 41 | | Adjustment | L40 - L39 | | | (82,759.46) | 82,759.46 |
| | | RELATED TRANSFERS | | | | | |
| 42 | 3121 | ACCUMULATED DEPRECIATION (Non-Reg V&WE,L9+L10+L11) | Non Reg V&WE, L9d+10d+11d | 213,161.87 | 8,655.84 | 204,506.03 | |
| 43 | | State Allocation | L42c * L5 | | | 121,746.57 | 82,759.46 |
| 44 | | Adjustment | L43 - L42 | | | (82,759.46) | 82,759.46 |
| 45 | 4349 | DEFERRED INCOME TAX (Non-Reg V&WE, L16+17+18) | Non Reg V&WE, L16d+17d+18d | 7,175.08 | 291.36 | 6,883.72 | |
| 46 | | State Allocation | L45c *L5 | | | 4,098.02 | 2,785.70 |
| 47 | | Adjustment | L46 - L45 | | | (2,785.70) | 2,785.70 |
| 48 | 6561 | DEPRECIATION EXPENSE (Non-Reg V&WE, L21+L22+L23) | Non Reg V&WE, L21d+22d+23d | 30,613.45 | 1,243.12 | 29,370.33 | |
| 49 | | State Allocation | L48c *L5 | | | 17,484.75 | 11,885.58 |
| 50 | | Adjustment | L49 - L48 | | | (11,885.58) | 11,885.58 |
| 51 | 6116 | MAINTENANCE EXPENSE (Non Reg V&WE, L26+L27+L28) | Non Reg V&WE, L26d+L27d+L28d | 11,701.21 | 475.15 | 11,226.06 | |
| 52 | | State Allocation | L51c * L5 | | | 6,683.10 | 4,542.96 |
| 53 | | Adjustment | L52 - L51 | | | (4,542.96) | 4,542.96 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2112 | **Furniture** | | | | | |
| 54 | | Furniture (Non-Reg F&OE,L4) | Non-Reg F&OE, L4c | 10,530.42 | 822.74 | 9,707.68 | |
| 55 | | State Allocation | L54c * L5 | | | 5,779.18 | 3,928.50 |
| 56 | | Adjustment | L55 - L54 | | | (3,928.50) | 3,928.50 |
| | | RELATED TRANSFERS | | | | | |
| 57 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L7) | Non-Reg F&OE, L7c | 3,522.25 | 275.19 | 3,247.06 | |
| 58 | | State Allocation | L57c * L5 | | | 1,933.04 | 1,314.02 |
| 59 | | Adjustment | L58 - L57 | | | (1,314.02) | 1,314.02 |
| 60 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L10) | Non-Reg F&OE, L10c | 354.46 | 27.69 | 326.76 | |
| 61 | | State Allocation | L60c * L5 | | | 194.53 | 132.23 |
| 62 | | Adjustment | L61 - L60 | | | (132.23) | 132.23 |
| 63 | 6561 | DEPRECIATION EXPENSE (Non Reg F&OE, L16) | Non-Reg F&OE, L16c | 1,335.12 | 104.31 | 1,230.81 | |
| 64 | | State Allocation | L63c * L5 | | | 732.72 | 498.08 |
| 65 | | Adjustment | L64 - L63 | | | (498.08) | 498.08 |
| 66 | 6122 | MAINTENANCE EXPENSE (Non Reg F&OE, L13) | Non-Reg F&OE, L13c | 2,224.25 | 173.78 | 2,050.47 | |
| 67 | | State Allocation | L66c * L5 | | | 1,220.69 | 829.78 |
| 68 | | Adjustment | L67 - L66 | | | (829.78) | 829.78 |
| | 2123 | **Office Equipment** | | | | | |
| 69 | | Office Equipment (Non-Reg F&OE,L5) | Non-Reg F&OE, L5c | 149,344.39 | 11,668.22 | 137,676.17 | |
| 70 | | State Allocation | L69c * L5 | | | 81,961.41 | 55,714.77 |
| 71 | | Adjustment | L70 - L69 | | | (55,714.77) | 55,714.77 |
| | | RELATED TRANSFERS | | | | | |
| 72 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L8) | Non-Reg F&OE, L8c | 113,305.30 | 8,852.50 | 104,452.80 | |
| 73 | | State Allocation | L72c * L5 | | | 62,182.86 | 42,269.94 |
| 74 | | Adjustment | L73 - L72 | | | (42,269.94) | 42,269.94 |
| 75 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L11) | Non-Reg F&OE, L11c | 5,026.97 | 392.75 | 4,634.21 | |
| 76 | | State Allocation | L75c * L5 | | | 2,758.84 | 1,875.37 |
| 77 | | Adjustment | L76 - L75 | | | (1,875.37) | 1,875.37 |
| 78 | 6561 | DEPRECIATION EXPENSE (Non Reg F&OE, L17) | Non-Reg F&OE, L17c | 23,444.50 | 1,831.71 | 21,612.79 | |
| 79 | | State Allocation | L78c * L5 | | | 12,866.53 | 8,746.26 |
| 80 | | Adjustment | L79 - L78 | | | (8,746.26) | 8,746.26 |
| 81 | 6123 | MAINTENANCE EXPENSE (Non Reg F&OE, L14) | Non-Reg F&OE, L14c | 18,118.53 | 1,415.59 | 16,702.94 | |
| 82 | | State Allocation | L81c * L5 | | | 9,943.60 | 6,759.34 |
| 83 | | Adjustment | L82 - L81 | | | (6,759.34) | 6,759.34 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2124 | **Computers** | | | | | |
| 84 | | Computers (Non-Reg F&OE,L6) | Non-Reg F&OE, L6c | 238,746.73 | 18,653.19 | 220,093.54 | |
| 85 | | State Allocation | L84c * L5 | | | 131,026.13 | 89,067.41 |
| 86 | | Adjustment | L85 - L84 | | | (89,067.41) | 89,067.41 |
| | | RELATED TRANSFERS | | | | | |
| 87 | 3121 | ACCUMULATED DEPRECIATION (Non Reg F&OE,L9) | Non-Reg F&OE, L9c | 226,236.74 | 17,675.79 | 208,560.95 | |
| 88 | | State Allocation | L87c * L5 | | | 124,160.55 | 84,400.41 |
| 89 | | Adjustment | L88 - L87 | | | (84,400.41) | 84,400.41 |
| 90 | 4349 | DEFERRED INCOME TAX (Non Reg F&OE, L12) | Non-Reg F&OE, L12c | 8,036.27 | 627.87 | 7,408.40 | |
| 91 | | State Allocation | L90c * L5 | | | 4,410.37 | 2,998.03 |
| 92 | | Adjustment | L91 - L90 | | | (2,998.03) | 2,998.03 |
| 93 | 6561 | DEPRECIATION EXPENSE (Non Reg F&OE, L18) | Non-Reg F&OE, L18c | 21,694.33 | 1,694.97 | 19,999.36 | |
| 94 | | State Allocation | L93c * L5 | | | 11,906.02 | 8,093.34 |
| 95 | | Adjustment | L94 - L93 | | | (8,093.34) | 8,093.34 |
| 96 | 6124 | MAINTENANCE EXPENSE (Non Reg F&OE, L15) | Non-Reg F&OE, L15c | 21,692.35 | 1,694.97 | 19,997.38 | |
| 97 | | State Allocation | L96c * L5 | | | 11,904.84 | 8,092.54 |
| 98 | | Adjustment | L97 - L96 | | | (8,092.54) | 8,092.54 |

TOTAH TELEPHONE COMPANY, INC.
STATE ALLOCATION SUMMARY-12/31/2004

| | | | Source | Oklahoma | Kansas |
|---|---|---|---|---|---|
| | | ***FACILITIES INVESTMENT*** | | | |
| 99 | 2111 | LAND | L8 | (7,634.95) | 7,634.95 |
| 100 | 2121 | BUILDINGS | L11 | (185,714.80) | 185,714.80 |
| 101 | 2112 | MOTOR VEHICLES | L26 | (98,875.06) | 98,875.06 |
| 102 | 2116 | OTHER WORK EQUIPMENT | L41 | (82,759.46) | 82,759.46 |
| 103 | 2122 | FURNITURE | L56 | (3,928.50) | 3,928.50 |
| 104 | 2123 | OFFICE EQUIPMENT | L71 | (55,714.77) | 55,714.77 |
| 105 | 2124 | COMPUTERS | L86 | (89,067.41) | 89,067.41 |
| 106 | | TOTAL LAND AND SUPPORT ASSETS | L99..L105 | (523,694.96) | 523,694.96 |
| | 3121 | ***DEPRECIATION RESERVES*** | | | |
| 107 | | BUILDINGS | L14 | (77,964.34) | 77,964.34 |
| 108 | | MOTOR VEHICLES | L29 | (101,301.77) | 101,301.77 |
| 109 | | OTHER WORK EQUIPMENT | L44 | (82,759.46) | 82,759.46 |
| 110 | | FURNITURE | L59 | (1,314.02) | 1,314.02 |
| 111 | | OFFICE EQUIPMENT | L74 | (42,269.94) | 42,269.94 |
| 112 | | COMPUTERS | L89 | (84,400.41) | 84,400.41 |
| 113 | | TOTAL DEPRECIATION RESERVES | L107...L112 | (390,009.94) | 390,009.94 |
| | 4349 | ***DEFERRED TAXES*** | | | |
| 114 | | BUILDINGS | L17 | (6,508.20) | 6,508.20 |
| 115 | | MOTOR VEHICLES | L32 | (3,328.16) | 3,328.16 |
| 116 | | OTHER WORK EQUIPMENT | L47 | (2,785.70) | 2,785.70 |
| 117 | | FURNITURE | L62 | (132.23) | 132.23 |
| 118 | | OFFICE EQUIPMENT | L77 | (1,875.37) | 1,875.37 |
| 119 | | COMPUTERS | L92 | (2,998.03) | 2,998.03 |
| 120 | | TOTAL DEFERRED TAXES | L114...L119 | (17,627.70) | 17,627.70 |
| | | ***MAINTENANCE EXPENSE*** | | | |
| 121 | 6121 | LAND AND BUILDINGS | L23 | (11,685.05) | 11,685.05 |
| 122 | 6112 | MOTOR VEHICLES | L38 | (7,687.65) | 7,687.65 |
| 123 | 6116 | OTHER WORK EQUIPMENT | L53 | (4,542.96) | 4,542.96 |
| 124 | 6122 | FURNITURE | L68 | (829.78) | 829.78 |
| 125 | 6123 | OFFICE EQUIPMENT | L83 | (6,759.34) | 6,759.34 |
| 126 | 6124 | COMPUTERS | L98 | (8,092.54) | 8,092.54 |
| 127 | | TOTAL MAINTENANCE EXPENSES | L121...L126 | (39,597.32) | 39,597.32 |
| | 6561 | ***DEPRECIATION EXPENSE*** | | | |
| 128 | | LAND AND BUILDINGS | L20 | (6,500.02) | 6,500.02 |
| 129 | | MOTOR VEHICLES | L35 | (475.40) | 475.40 |
| 130 | | OTHER WORK EQUIPMENT | L50 | (11,885.58) | 11,885.58 |
| 131 | | FURNITURE | L65 | (498.08) | 498.08 |
| 132 | | OFFICE EQUIPMENT | L80 | (8,746.26) | 8,746.26 |
| 133 | | COMPUTERS | L95 | (8,093.34) | 8,093.34 |
| 134 | | TOTAL MAINTENANCE EXPENSES | L128...L134 | (36,198.68) | 36,198.68 |
| 135 | 7240 | ***PROPERTY TAXES*** | L106*Non-Reg LB, L36 | (3,390.88) | 3,390.88 |

TOTAH TELEPHONE COMPANY, INC.
STATE ALLOCATIONS WORKSHEET - INPUTS

ALLOC.XLS
Prepared by FW&A. Inc.
5/23/2005

| DESCRIPTION | Accumulated Depreciation | | Accumulated Deferred Taxes | | Depreciation Expense | |
|---|---|---|---|---|---|---|
| PRE ALLOCATION BALANCES | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 |
| **TOTAH - OKLAHOMA** | | | | | | |
| MOTOR VEHICLES (2112) | 260,921 | (10,595) | 8,594 | (349) | 1,224 | (50) |
| OTHER WORK EQUIPMENT (2116) | 213,162 | (8,656) | 7,193 | (292) | 30,613 | (1,024) |
| COMMERCIAL OFFICE BUILDING (2121) | 186,223 | (2,542) | 7,553 | (103) | $23,927.40 | (327) |
| OFFICE FURNITURE (2122) | 3,522 | (275) | 355 | (28) | 1,335 | (104) |
| OFFICE EQUIPMENT (2123) | 113,305 | (8,853) | 5,040 | (394) | 23,445 | (1,832) |
| COMPUTERS (2124) | 226,237 | (17,676) | 8,056 | (629) | 21,694 | (1,695) |
| OTHER | 7,599,310 | (22,303) | 512,067 | (1,402) | 689,274 | (2,448) |
| TOTAL | 8,602,681 | (70,900) | 548,858 | (3,197) | 791,513 | (7,480) |
| **TOTAH - KANSAS** | | | | | | |
| MOTOR VEHICLES (2112) | 74,016 | (3,006) | 656 | (27) | 0 | 0 |
| OTHER WORK EQUIPMENT (2116) | 51,079 | (2,074) | 453 | (18) | 2,693 | (109) |
| COMMERCIAL OFFICE BUILDING (2121) | 0 | | 0 | | 0 | |
| OFFICE FURNITURE (2122) | 0 | | 0 | | 0 | |
| OFFICE EQUIPMENT (2123) | 0 | | 0 | | 0 | |
| COMPUTERS (2124) | 0 | | 0 | | 0 | |
| OTHER | 6,158,431 | (9,299) | 88,593 | (133) | 592,438 | (1,094) |
| TOTAL | 6,283,526 | (14,378) | 89,702 | (178) | 595,131 | (1,203) |

TOTAH TELEPHONE COMPANY, INC. | ALLOC.XLS
STATE ALLOCATIONS WORKSHEET | Prepared by FW&A, Inc.
STUDY FOR THE YEAR ENDED DECEMBER 31, 2003 | 6/28/2004

SUMMARY OF INVESTMENT TRANSFERS FROM OKLAHOMA

| ADJUSTMENT # 9 | COST | ACCUM. DEPR. | DEFERRED F.I.T. | DEFERRED S.I.T. | DEPRECIATION EXPENSE |
|---|---|---|---|---|---|
| LAND | (1,932.74) | | | | |
| BUILDINGS | (50,313.36) | (31,403.51) | 55.23 | 0.00 | (1,379.22) |
| VEHICLES | (43,887.90) | (43,531.55) | (2,966.68) | 0.00 | (7,449.89) |
| OTH WORK EQU | (29,582.41) | (28,032.58) | (1,996.78) | 0.00 | (4,527.45) |
| OFFICE EQUIP. | (84,554.32) | (60,442.33) | (5,765.41) | 0.00 | (4,595.51) |
| COMPUTERS | (242,565.01) | (241,576.43) | (16,400.98) | 0.00 | (2,527.13) |
| | (452,835.74) | (404,986.40) | (27,074.63) | 0.00 | (20,479.20) |

| | OKLAHOMA | KANSAS | TOTAL |
|---|---|---|---|
| ALLOCATION OF PROPERTY TAXES | | | |
| OKLAHOMA PROPERTY TAXES FOR THE PERIOD | 92,370.66 | | |
| T.P.I.S BEFORE ALLOCATIONS | 15,266,855.94 | | |
| EFFECTIVE PROPERTY TAX RATE | 0.006050 | | |
| PROPERTY TRANSFERRED TO KANSAS | 452,835.74 | | |
| PROPERTY TAX ALLOCATED TO KANSAS | 2,739.84 | | |
| PROPERTY TAX EXPENSE : | | | |
| PRE-ALLOCATION BALANCES | 92,370.66 | 95,817.58 | 188,188.24 |
| ALLOC. BASED UPON PROPERTY TRANSFERRED | 89,630.82 | 98,557.42 | 188,188.24 |
| ADJUSTMENT # 10 | (2,739.84) | 2,739.84 | 0.00 |

ALLOCATION OF FIXED CHARGES

NOTE : FIXED CHARGES ARE CALCULATED ON A SEPARATE WORKPAPER BEHIND "FIXED CHARGES" TAB.

TOTAH TELEPHONE COMPANY, INC.

STATE ALLOCATIONS WORKSHEET - INPUTS

ALLOC.XLS

Prepared by FW&A, Inc.

5/23/2005

| DESCRIPTION | Accumulated Depreciation | | Accumulated Deferred Taxes | | Depreciation Expense | |
|---|---|---|---|---|---|---|
| PRE ALLOCATION BALANCES | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 | Balance per G/L @ 12/31/2004 | Non-Regulated Study Adj. 12/31/2004 |
| **TOTAH - OKLAHOMA** | | | | | | |
| MOTOR VEHICLES (2112) | 260,921 | (10,595) | 8,594 | (349) | 1,224 | (50) |
| OTHER WORK EQUIPMENT (2116) | 213,162 | (8,656) | 7,193 | (292) | 30,613 | (1,024) |
| COMMERCIAL OFFICE BUILDING (2121) | 186,223 | (2,542) | 7,553 | (103) | $23,927.40 | (327) |
| OFFICE FURNITURE (2122) | 3,522 | (275) | 355 | (28) | 1,335 | (104) |
| OFFICE EQUIPMENT (2123) | 113,305 | (8,853) | 5,040 | (394) | 23,445 | (1,832) |
| COMPUTERS (2124) | 226,237 | (17,676) | 8,056 | (629) | 21,694 | (1,695) |
| OTHER | 7,599,310 | (22,303) | 512,067 | (1,402) | 689,274 | (2,448) |
| TOTAL | 8,602,681 | (70,900) | 548,858 | (3,197) | 791,513 | (7,480) |
| **TOTAH - KANSAS** | | | | | | |
| MOTOR VEHICLES (2112) | 74,016 | (3,006) | 656 | (27) | 0 | 0 |
| OTHER WORK EQUIPMENT (2116) | 51,079 | (2,074) | 453 | (18) | 2,693 | (109) |
| COMMERCIAL OFFICE BUILDING (2121) | 0 | | 0 | | 0 | |
| OFFICE FURNITURE (2122) | 0 | | 0 | | 0 | |
| OFFICE EQUIPMENT (2123) | 0 | | 0 | | 0 | |
| COMPUTERS (2124) | 0 | | 0 | | 0 | |
| OTHER | 6,158,431 | (9,299) | 88,593 | (133) | 592,438 | (1,094) |
| TOTAL | 6,283,526 | (14,378) | 89,702 | (178) | 595,131 | (1,203) |

# TOTAH TELEPHONE COMPANY, INC.

STATE ALLOCATIONS WORKSHEET
STUDY FOR THE YEAR ENDED DECEMBER 31, 2002

ALLOC.XLS
ARS/JLP
6/27/2003

SUMMARY OF INVESTMENT TRANSFERS FROM OKLAHOMA

| ADJUSTMENT # 9 | COST | ACCUM. DEPR. | DEFERRED F.I.T. | DEFERRED S.I.T. | DEPRECIATION EXPENSE |
|---|---|---|---|---|---|
| LAND | (1,792.33) | | | | |
| BUILDINGS | (50,437.70) | (31,703.40) | (2,817.97) | 0.00 | (1,456.35) |
| VEHICLES | (53,886.41) | (51,401.85) | (3,649.76) | 0.00 | (8,942.54) |
| OTH WORK EQU | (26,493.93) | (24,591.93) | (1,794.45) | 0.00 | (3,845.26) |
| OFFICE EQUIP. | (99,071.34) | (89,987.75) | (6,710.17) | 0.00 | (777.05) |
| COMPUTERS | (316,392.40) | (316,392.34) | (21,429.48) | 0.00 | (9,087.87) |
| | (548,074.12) | (514,077.27) | (36,401.84) | 0.00 | (24,109.07) |

| | OKLAHOMA | KANSAS | TOTAL |
|---|---|---|---|
| **ALLOCATION OF PROPERTY TAXES** | | | |
| OKLAHOMA PROPERTY TAXES FOR THE PERIOD | 106,774.66 | | |
| T.P.I.S BEFORE ALLOCATIONS | 14,494,458.89 | | |
| EFFECTIVE PROPERTY TAX RATE | 0.007367 | | |
| PROPERTY TRANSFERRED TO KANSAS | 548,074.12 | | |
| PROPERTY TAX ALLOCATED TO KANSAS | 4,037.43 | | |
| PROPERTY TAX EXPENSE : | | | |
| PRE-ALLOCATION BALANCES | 106,774.66 | 98,680.28 | 205,454.94 |
| ALLOC. BASED UPON PROPERTY TRANSFERRED | 102,737.23 | 102,717.71 | 205,454.94 |
| ADJUSTMENT # 10 | (4,037.43) | 4,037.43 | 0.00 |

ALLOCATION OF FIXED CHARGES

NOTE : FIXED CHARGES ARE CALCULATED ON A SEPARATE WORKPAPER BEHIND "FIXED CHARGES" TAB.

**Kansas Corporation Commission**
Information Request

Request No: **90**

| | | |
|---|---|---|
| Company Name | TOTAH COMMUNICATIONS, INC. | TTHT |
| Docket Number | 05-TTHT-895-AUD | |
| Request Date | August 17, 2005 | |
| Date Information Needed | August 26, 2005 | |

RE: DR 83

**Please Provide the Following:**

The response to DR#83 included a file that revised the Section 12(v) non-regulated and state allocation studies entitled "DR83_Reg_NONREG_Totah.xls". During the August 8, 2005 conference call, the allocation of the Motor Vehicle and the Other Work Equipment investments and related reserves and expenses between the Kansas and Oklahoma jurisdictions was discussed. One issue discussed was that the costs related to the equipment located in Kansas were directly assigned to Kansas; however, none of the costs of the equipment located in Oklahoma were directly assigned to Oklahoma. Instead the costs of the equipment located in Oklahoma were allocated between the two states.

a. Is the Company easily able to determine if any of the costs of the equipment located in Oklahoma should be directly assigned to Oklahoma jurisdiction?

b. If the answer to part a is no, would the Company be opposed to allocating a portion of the costs related to the equipment that are located in Kansas to the Oklahoma jurisdiction in order to treat the cost of the equipment located in each state equally?

Submitted By REAMS/MCCULLAR

Submitted To GAILEY/MORRISSEY

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Mark M Shiley by Keith E Watson

Date: 8/22/05

Answer:

a. The Company's accounting system does not track vehicles that are directly attributable to Oklahoma. However, based on a review of the vehicles accounted for in the Oklahoma jurisdiction the Company has determined that $48,498.00 of investments in vehicles are directly attributable to Oklahoma operations. Other Work Equipment can't be directly attributable to Oklahoma operations.

b. Not applicable.

DR 90/105 Supplement

TOTAH COMMUNICATIONS, INC.
VEHICLE SCHEDULE

| VEHICLE DESCRIPTION | COST | ASSIGNED DRIVER | | |
|---|---|---|---|---|
| OKLAHOMA LICENSED | | | | |
| 2005 FORD EXPEDITION | $37,260.00 | MARK M GAILEY | BOTH | |
| | $37,260.00 | | | |
| 1997 FORD PU | $21,681.51 | MATTHEW S. GAILEY | BOTH | |
| 1997 FORD PU (DIESEL) | $24,715.54 | TIMOTHY L. BRANSCUM | OKLA | $70,094.31 |
| 2000 FORD F150 | $22,821.57 | DUSTIN J. HARPER | BOTH | |
| 2001 FORD F150 | $28,044.57 | ADAM MARSHECK | BOTH | |
| 1997 FORD CROWN VIC | $21,595.50 | SERONDA R. BRYANT | OKLA | |
| 2002 FORD F150 | $23,783.27 | WESS L. FOSTER | OKLA | |
| 2003 FORD F150 | $24,115.09 | WARD R. FOSTER | BOTH | |
| 2003 FORD F150 | $24,099.21 | WM. KENT FOSTER | BOTH | |
| 1999 FORD EXPEDITION | $24,758.11 | KEITH E. WATSON | BOTH | |
| | $215,614.37 | | | |
| 1997 FORD F350 | $30,658.32 | BRYANT E. SARCOXIE | BOTH | |
| VARIOUS EQUIPMENT | $151.59 | | | |
| (2) PROPANE TANKS | $1,902.90 | | | |
| TRAILER TANDEM AXLE-DUAL | $5,879.81 | | | |
| T.Q. OUTRIGER | $463.50 | | | |
| | $39,056.12 | | | |
| KANSAS LICENSED | | | | |
| 2001 FORD F150/7700 | $25,197.54 | MICHAEL A. SANDERS | KS | |
| 1997 FORD F250 | $21,333.95 | Various | BOTH | |
| 2003 FORD F150 | $25,110.74 | ADRIAN L. MORGAN | KS | |
| 6X20 UTILITY TRAILER | $2,373.76 | | KS | |
| | $74,015.99 | | | |

## Kansas Corporation Commission
Information Request

Request No: **105**

| | | |
|---|---|---|
| Company Name | TOTAH COMMUNICATIONS, INC. | TTHT |
| Docket Number | 05-TTHT-895-AUD | |
| Request Date | September 14, 2005 | |
| Date Information Needed | September 22, 2005 | |

RE: DR 90, Other Work Equipment

**Please Provide the Following:**

Please confirm the following items in regards to the company's response to DR 90, including the supplemental vehicle listing. If any item cannot be confirmed, please explain why not.

a. The company cannot identify any "Other Work Equipment" to directly assign to OK since the nature of the Equipment is such that it is all considered to be jointly used between KS and OK.

b. Please confirm that for Vehicles, Totah directly assigned a jointly-used vehicle to Kansas, but allocated all jointly-used vehicles in Oklahoma to both Kansas and Oklahoma.

c. Please confirm that Staff and Totah agreed to directly assign Seronda Bryant's vehicle to Oklahoma operations since it is approximately equal in value to the jointly-used vehicle the company directly assigned to Kansas.

d. Please confirm that Seronda Bryant performs both inside and outside work, and should appropriately be considered as both instead of just an inside employee.

Submitted By REAMS/MCCULLAR

Submitted To GAILEY/MORRISSEY

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

KANSAS CORPORATION COMMISSION

SEP 1 9 2005

UTILITIES DIVISION

Signed: Mark M. Gailey

Date: 9/23/05

Answer:

a. The state information is correct.

b. The stated information is correct.

c. The state information is correct.

d. The company concurs that Seronda Bryant performs both inside and outside work. However, Seronda is primarily an inside employee. Her primary job function is for Information and Technology. As a general rule, she does not work on cable pairs of physical outside plant which would classify her as an outside employee. An outside employee's primary work function is to install, repair, locate the physical outside plant facilities that connect the inside (CO) to the Customer Premise. Seronda does not do this as her primary work function. On a rare occasion, she may assist in this work, but typically this as less than 5% of what she does.

**Test Year Update Summary**

Docket 01-RRLT-083-AUD, Rural Telephone Service Company

| | |
|---|---|
| Date of Filing: | 10/27/2000 |
| Date of Staff Testimony: | 3/28/2001 |
| Test Year: | 1999 |
| Company Proposed Update: | 12/31/2000 |
| Staff Update: | 8/31/2000 |

Analysis: Rural's filing updated its plant in service, based on its projected December 31, 2000 balances. Staff synchronized all rate base components as of August 31, 2000. All rate base components were verifiable; all regulated plant in service met the used and useful definition.

Docket 01-SNKT-544-AUD, Southern Kansas Telephone

| | |
|---|---|
| Date of Filing: | 1/04/2001 |
| Date of Staff Testimony: | 6/20/2001 |
| Test Year: | 1999 |
| Company Proposed Update: | 12/31/2000 |
| Staff Update: | 12/31/2000 |

Analysis: Southern Kansas' filing indicated a material increase in plant investment during 2000. Staff synchronized all rate base components as of December 31, 2000. Balances were verifiable at time of Staff's review, all plant included met the used and useful definition.

Docket 01-CRKT-713-AUD, Craw-Kan Telephone

| | |
|---|---|
| Date of Filing: | 4/20/2001 |
| Date of Staff Testimony: | 9/26/2001 |
| Test Year: | 2000 |
| Company Proposed Update: | 12/31/2001 |
| Staff Update: | 6/30/2001 |

Analysis: Craw-Kan's filing included material projected increases in plant investment during 2001. Staff reviewed, verified, and synchronized all rate base components as of June 30, 2001. All plant included met the used and useful definition.

Docket 01-BLST-878-AUD, Bluestem Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 6/07/2001 |
| Date of Staff Testimony: | 10/22/2001 |
| Test Year: | 2000 |
| Company Proposed Update: | 12/31/2001 |
| Staff Update: | 5/31/2001 |

**Test Year Update Summary**

Analysis: Bluestem's filing included a projected increase in plant through December 31, 2001. Staff reviewed, verified, and synchronized all rate base components as of May 31, 2001. All plant met used and useful definition.

Docket 01-SFLT-879-AUD, Sunflower Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 6/07/2001 |
| Date of Staff Testimony: | 10/17/2001 |
| Test Year: | 2000 |
| Company Proposed Update: | 12/31/2001 |
| Staff Update: | 5/31/2001 |

Analysis: Sunflower indicated a material level of plant placed in service at the time of its filing and/or projected to be placed in service by the end of the current year. Staff reviewed, verified, and synchronized all rate base components as of May 31, 2001. All plant met used and useful definition.

Docket 01-PNRT-929-AUD, Pioneer Telephone Association, Inc.

| | |
|---|---|
| Date of Filing: | 6/22/2001 |
| Date of Staff Testimony: | 12/07/2001 |
| Test Year: | 2000 |
| Company Proposed Update: | None |
| Staff Update: | None |

Analysis: Pioneer included Telephone Plant Under Construction (TPUC) as of December 31, 2000. Staff removed the TPUC through an adjustment.

Docket 02-HOMT-209-AUD, Home Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 12/13/2001 |
| Date of Staff Testimony: | 5/03/2002 |
| Test Year: | 2000 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 02-WLST-210-AUD, Wilson Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 12/13/2001 |
| Date of Staff Testimony: | 5/03/2002 |
| Test Year: | 2000 |
| Company Proposed Update: | 12/31/2001 |
| Staff Update: | None |

**Test Year Update Summary**

Analysis: Wilson estimated it would place plant in service after the test year. Staff removed proposed plant from the Test Year.

Docket 02-BLVT-377-AUD, Blue Valley Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 2/15/2002 |
| Updated Filing: | 5/07/2002 |
| Date of Staff Testimony: | 6/28/2002 |
| Test Year: | 2001 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 02-S&TT-390-AUD, S&T Telephone Company, Inc.

| | |
|---|---|
| Date of Filing: | 2/25/2002 |
| Updated Filing: | 5/09/2002 |
| Date of Staff Testimony: | 7/09/2002 |
| Test Year: | 2001 |
| Company Proposed Update: | 6/30/2002 |
| Staff Update: | None |

Analysis: S&T estimated it would place a material level of plant in service during 2002 and 2003, and proposed to include estimated plant to be placed in service by June 30, 2002. Staff removed the estimated plant to be placed in service from the Test Year.

Docket 02-JBNT-846-AUD, JBN Telephone Company

| | |
|---|---|
| Date of Filing: | 7/14/2002 |
| Updated Filing: | 8/27/2002 |
| Date of Staff Testimony: | 10/18/2002 |
| Test Year: | 2001 |
| Company Proposed Update: | 07/31/2002 |
| Staff Update: | 07/31/2002 |

Analysis: JBN's updated filing proposed to update specific, limited plant accounts. Staff was able to review and verify the limited account updates were used and useful. Staff updated rate base through July 2002.

Docket 03-S&AT-160-AUD, S&A Telephone Company

| | |
|---|---|
| Date of Filing: | 10/11/2002 |
| Updated Filing: | 11/06/2002 |
| Date of Staff Testimony: | 02/21/2003 |
| Test Year: | 2001 |

**Test Year Update Summary**

| | |
|---|---|
| Company Proposed Update: | 09/30/2002 |
| Staff Update: | 09/30/2002 |

Analysis: S&A's filing included proposed plant updates for plant, and related depreciation, in addition to normalizing operating revenues and expenses through September 2002. Staff, reviewed, verified, and synchronized rate base components as September 30, 2002. All plant met used and useful definition.

Docket 03-WHST-503-AUD, Wheat State Telephone Company

| | |
|---|---|
| Date of Filing: | 12/30/2002 |
| Updated Filing: | 01/15/2003 |
| Updated Filing: | 04/24/2003 |
| Date of Staff Testimony: | 06/27/2003 |
| Test Year: | 2002 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 03-HVDT-664-RTS, Haviland Telephone Company

| | |
|---|---|
| Date of Filing: | 02/20/2003 |
| Updated Filing: | 04/09/2003 |
| Date of Staff Testimony: | 08/01/2003 |
| Test Year: | 2002 |
| Company Proposed Update: | 05/31/2003 |
| Staff Update: | None |

Analysis: Haviland proposed to include estimated plant and additional accumulated depreciation in rate base, for projected plant to be placed in service by May 31, 2003, as well as projected related revenue loss. Staff removed the projected rate base updates and related income statement adjustments since the plant did not meet the used and useful definition, nor were contracts related to plant and revenue executed.

Docket 04-TWVT-1031-AUD, Twin Valley Telephone

| | |
|---|---|
| Date of Filing: | 08/14/2003 |
| Updated Filing: | 09/02/2003 |
| Date of Staff Testimony: | 01/27/2004 |
| Test Year: | 2002 |
| Company Proposed Update: | None |
| Staff Update: | None |

**Test Year Update Summary**

Docket 04-CGTT-679-AUD, Council Grove Telephone

| | |
|---|---|
| Date of Filing: | 02/03/2004 |
| Updated Filing: | None |
| Date of Staff Testimony: | 06/24/2004 |
| Test Year: | 09/30/2003 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 04-GBNT-130-AUD, Golden Belt

| | |
|---|---|
| Date of Filing: | 10/02/2003 |
| Updated Filing: | None |
| Date of Staff Testimony: | 02/27/2004 |
| Test Year: | 2002 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 04-UTAT-690-AUD, United Telephone Association

| | |
|---|---|
| Date of Filing: | 04/05/2004 |
| Updated Filing: | None |
| Date of Staff Testimony: | 08/24/2004 |
| Test Year: | 2003 |
| Company Proposed Update: | None |
| Staff Update: | None |

Docket 05-CNHT-020-AUD, Cunningham Telephone

| | |
|---|---|
| Date of Filing: | 11/01/2004 |
| Updated Filing: | 11/12/2004 |
| Date of Staff Testimony: | 03/18/2005 |
| Test Year: | 2003 |
| Company Proposed Update: | mid-2005 |
| Staff Update: | None |

Analysis: Cunningham proposed adjustments to include projected update plant, accumulated depreciation and depreciation expense related through 2005. Staff removed the proposed updates.

Docket 05-KOKT-060-AUD, KanOkla Telephone

| | |
|---|---|
| Date of Filing: | 10/15/2004 |
| Updated Filing: | None |
| Date of Staff Testimony: | 03/04/2005 |

**Test Year Update Summary**

| | |
|---|---|
| Test Year: | 06/30/2004 |
| Company Proposed Update: | 12/31/2004 |
| Staff Update: | None |

Analysis: KanOkla proposed adjustments to include plant and depreciation expense for plant projected to be closed by December 31, 2004. Staff made adjustments to remove the Company's proposed adjustments.

## CERTIFICATE OF SERVICE

05-TTHT-895-AUD

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony of David N. Dittemore was placed in the United States mail, postage prepaid, or hand-delivered this 11th day of October, 2005, to the following:

BILL MCBRIDE, VICE PRESIDENT
FRED WILLIAMSON & ASSOCIATES
2921 E. 91ST STREET
SUITE 200
TULSA, OK 74137-3300
Fax: 918-299-2569
bmcbride@fwainc.com

TIM MORISSEY
FRED WILLIAMSON & ASSOCIATES
2921 E. 91ST STREET
SUITE 200
TULSA, OK 74137-3300

THOMAS E. GLEASON, ATTORNEY
GLEASON & DOTY, CHARTERED
P.O. BOX 6
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DAVID DITTEMORE
STRATEGIC REGULATORY SOLUTIONS
8910 N 131ST E AVE
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Fax: 918-274-3522
ddittemore@cox.net

MARK M. GAILEY, PRESIDENT & GENERAL MANAGER
TOTAH COMMUNICATIONS, INC.
101 MAIN STREET
PO BOX 300
OCHELATA, OK 74051-0300
Fax: 918-535-2701

WILLIAM DUNKEL, CONSULTANT
WILLIAM DUNKEL & ASSOCIATES
8625 FARMINGTON CEMETARY RD.
PLEASANT PLAINS, IL 62677
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8625 FARMINGTON CEMETARY RD.
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Fax: 217-626-1934

Pamela Griffeth

BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS



In the Matter of an Audit of Rainbow Telecommunications Assn., Inc. ) Docket No. 06-RNBT-1322-AUD

REDACTED ATTACHMENT DND-2

TO THE DIRECT TESTIMONY OF

DAVID DITTEMORE

ON BEHALF OF

COMMISSION STAFF

February 9, 2007

IN THE MATTER OF AN AUDIT OF RAINBOW TELECOMMUNICATIONS ASSN., INC.
DOCKET NO. 06-RNBT-1322-AUD

FEBRUARY 9, 2007

THE FOLLOWING DRS CONTAIN COMPANY SPECIFIC INFORMATION AND HAVE BEEN DESIGNATED AS CONFIDENTIAL

DR 10

DR 88

# Kansas Corporation Commission
Information Request

Request No: **93**

| | | | |
|---|---|---|---|
| APPLICANT | RAINBOW TELECOMMUNICATIONS ASSOCIATION, RNBT | | |
| DATE OF REQUEST | NOV. 28, 2006 | | |
| Docket Number | 06-RNBT-1322-AUD | DATE INFO. NEEDED | DEC. 7, 2006 |
| TEST YEAR ENDED | DEC. 31, 2006 | DATE INFO. SUPPLIED | |

**Please Provide the Following:**

Please provide a description of each building owned by Rainbow Telecommunications comprising the book balance of account 2121 as of December 31, 2005.
For each building, please provide the original cost of the building and the related accumulated depreciation of each building as of December 31, 2005.

Submitted by Hull/McCullar

Submitted to Lednicky/Kelly

*Response: See attached*

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

KANSAS CORPORATION COMMISSION

DEC 05 2006

UTILITIES DIVISION

Signed: [signature]

Date: 12/2/2006

PRINT DATE: 24-MAR-06

RAINBOW TELECOMMUNICATIONS ASSOCIATION
CONTINUING PROPERTY RECORDS
LAND AND SUPPORT ASSETS
PERIOD FROM 01/01/05 TO 12/31/05

TELEPHONE EXCHANGE: ALL



CPR ACCOUNT: 2121.00 BUILDINGS
SEP CAT: LSA 1 SUPPORT ASSETS

| | UNIT DESCRIPTION | INSTALL DATE | # OF UNITS BEGINNING | UNITS SUBTRACTED | UNITS ADDED | # OF UNITS ENDING | UNIT COST AVG. VALUE | BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | HURON 16' X 20' BRICK AND CONCRETE | 56 | 1.000 | 0.000 | 0.000 | 1.000 | 12884.200 | 12884.20 | |
| 2 | MUSCOTAH 16' X 32' BRICK AND CONCRETE | 63 | 1.000 | 0.000 | 0.000 | 1.000 | 25836.760 | 25836.76 | |
| 3 | EVEREST 40' X 50' STEEL | 78 | 1.000 | 0.000 | 0.000 | 1.000 | 11206.800 | 11206.80 | |
| 4 | EVEREST 40' X 50' STEEL | 64 | 1.000 | 0.000 | 0.000 | 1.000 | 5388.000 | 5388.00 | |
| 5 | EVEREST 16' X 24' BRICK AND CONCRETE | 56 | 1.000 | 0.000 | 0.000 | 1.000 | 15361.030 | 15361.03 | |
| 6 | EVEREST 30' X 30' BRICK AND CONCRETE | 76 | 1.000 | 0.000 | 0.000 | 1.000 | 56607.800 | 56607.80 | |
| 7 | EVEREST 30' X 64' BRICK AND CONCRETE | 56 | 1.000 | 0.000 | 0.000 | 1.000 | 44972.800 | 44972.80 | Ev. office |
| 8 | WILLIS 20' X 24' CONCRETE | 68 | 1.000 | 0.000 | 0.000 | 1.000 | 13557.280 | 13557.28 | |
| 9 | ROBINSON 30' X 30' BRICK AND CONCRETE | 76 | 1.000 | 0.000 | 0.000 | 1.000 | 44218.930 | 44218.93 | |
| 10 | DENTON 16' X 20' BRICK AND CONCRETE | | 1.000 | 0.000 | 0.000 | 1.000 | 10712.330 | 10712.33 | |
| 11 | BENDENA 20' X 24' BRICK AND CONCRETE | | 1.000 | 0.000 | 0.000 | 1.000 | 10701.200 | 10701.20 | |
| 12 | WHITING 16' X 32' BRICK AND CONCRETE | 63 | 1.000 | 0.000 | 0.000 | 1.000 | 13399.370 | 13399.37 | |
| 13 | EVEREST MORTON BUILDING LOT 1, BLOCK 21 | OCT 01 | 1.000 | 0.000 | 0.000 | 1.000 | 29000.000 | 29000.00 | |
| 14 | EVEREST CENTRAL OFFICE BUILDING ADDITION | NOV 01 | 1.000 | 0.000 | 0.000 | 1.000 | 143285.480 | 143285.48 | CO Bldg. |
| 15 | 12 SEER AIR CONDITIONER EVEREST CO | APR 02 | 1.000 | 0.000 | 0.000 | 1.000 | 2599.850 | 2599.85 | |
| 16 | BARD WA242-A08 AIR CONDITIONER HURON CO | JUN 02 | 1.000 | 0.000 | 0.000 | 1.000 | 2590.650 | 2590.65 | |
| 17 | AIR CONDITIONER ROBINSON CO | JUN 02 | 1.000 | 0.000 | 0.000 | 1.000 | 1185.000 | 1185.00 | |
| 18 | AIR CONDITIONER WHITING CO | SEP 02 | 1.000 | 0.000 | 0.000 | 1.000 | 2632.500 | 2632.50 | |
| 19 | BUILDING MODIFICATIONS | DEC 02 | 1.000 | 0.000 | 0.000 | 1.000 | 41093.070 | 41093.07 | |
| 20 | NEW BUSINESS OFFICE - EVEREST | DEC 03 | 1.000 | 0.000 | 0.000 | 1.000 | 236576.850 | 236576.85 | HQ |
| 21 | WAREHOUSE FLOOR - EVEREST | SEP 04 | 1.000 | 0.000 | 0.000 | 1.000 | 21973.910 | 21973.91 | |
| 22 | NEW BUSINESS OFFICE ADDITIONAL - EVEREST | OCT 04 | 1.000 | 0.000 | 0.000 | 1.000 | 190972.490 | 190972.49 | HQ |
| 23 | WAREHOUSE DOOR INSTALL - EVEREST | NOV 04 | 1.000 | 0.000 | 0.000 | 1.000 | 6595.000 | 6595.00 | |
| | | | | | | | SUB TOTAL: | 943351.30 | |

DR #93

PRINT DATE: 24-MAR-06

RAINBOW TELECOMMUNICATIONS ASSOCIATION
CONTINUING PROPERTY RECORDS
LAND AND SUPPORT ASSETS
PERIOD FROM 01/01/05 TO 12/31/05

TELEPHONE EXCHANGE: ALL



CPR ACCOUNT: 2121.00 BUILDINGS
SEP CAT: LSA 1 SUPPORT ASSETS

| | UNIT DESCRIPTION | INSTALL DATE | # OF UNITS BEGINNING | UNITS SUBTRACTED | UNITS ADDED | # OF UNITS ENDING | UNIT COST AVG. VALUE | BOOK VALUE |
|---|---|---|---|---|---|---|---|---|
| 24 | WAREHOUSE DRIVE - EVEREST | NOV 04 | 1.000 | 0.000 | 0.000 | 1.000 | 2786.000 | 2786.00 |
| 25 | METAL SHOP - EVEREST | APR 05 | 0.000 | 0.000 | 1.000 | 1.000 | 38721.460 | 38721.46 |
| | | | | | | | SUB TOTAL: | 41507.46 |
| | | | | | | | ACCOUNT TOTAL: | 984858.76 |

**Kansas Corporation Commission**
Information Request

Request No: **95**

Company Name RAINBOW TELECOMMUNICATIONS ASSOCIATION, RNBT

Docket Number 06-RNBT-1322-AUD

Request Date December 1, 2006

Date Information Needed December 12, 2006

RE: Employee positions

**Please Provide the Following:**

For any new employee hired subsequent to January 1, 2006, provide a comprehensive explanation justifying the need for the employee as it relates to the provision of regulated telephone service.

Submitted by Hull/McCullar
Submitted to Lednicky/Kelly

*Response: As a general rule, many of the new positions were necessary to perform the duties of the regulated telephone company and free up time for Rainbow's management team to supervise the newly acquired Carson operations. This change is reflected in the revised 2006 allocations of Rainbow's management team.*

***Angie Kreider*** *(January 1, 2006) was hired to supervise the Customer Service department, previously under Beverly Armstrong. This allows Ms. Armstrong to supervise total company accounting and billing efforts. (Position description provided in response to DR 73 – Customer Service Supervisor/Manager)*
***Ron Nelson*** *(March 30, 2006) was hired to replace Matt Fletcher who discontinued employment on November 30, 2005. (Position description provided in response to DR 73 – Tech II)*
***Dawna Wilhelm*** *(July 30, 2006) was hired to help implement a Customer Care program which attempts to regain customers who have changed or dropped services. (Position description provided in response to DR 73 – Customer Service Rep)*
***Chris Wardman*** *(August 21, 2006) was hired to replace Gary Coen who discontinued employment. The position has also changed and now focuses more on the telephone side opposed to the IP side. (Position description provided in response to DR 73 – Director of Network Operations)*
***Kelly Beach*** *(October 23, 2006) was hired to assist the Marketing Department so the Marketing Director (Jason Smith) to enable him to supervise efforts on the cable side. (Position description provided in response to DR 73 – Marketing Assistant)*
***Mario Schmitt*** *(November 1, 2006) was hired to assist Pat Streeter on the telephone plant. He will also perform plant and land maintenance which was performed by Garrett Miller who left employment August 1, 2006. (Position description provided in response to DR 73 – Tech I)*
***Rusty Sloniger*** *(November 8, 2006) was hired to assist with the computer network in the Everest Office and to repair customer's computers (Position description attached).*

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

**Verification of Response**

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.



Signed: K Kelly

Date: 12/11/06

Attachment 95



# Rainbow Telecommunications Association, Inc.
## System Network Administrator
POSITION DESCRIPTION

*This position supports the company's mission statement by ensuring that technology is up-to-date and consistently operating effectively, thereby enabling the company to provide quality and timely telecommunications services to its customers.*

| | |
|---|---|
| ***Position Title:*** | System Network Administrator |
| ***Division:*** | Everest, KS |
| ***Department:*** | Network Operations |
| ***Status:*** | Full-time/Non-Exempt |
| ***Supervisor Title:*** (assigns work, gives direction and answers questions) | Plant Manager |
| ***Evaluators:*** (Evaluates work of employee) | Plant Manager |
| ***In-put:*** | Director of Network Operations<br>Directors Team<br>Customers |
| ***Direct Reports:*** | System Network Technician |

## *ESSENTIAL RESPONSIBILITIES/JOB TASKS*

1. 75% Performs network administration and maintenance for the company to ensure the network is functioning properly and efficiently. Tasks may include monitoring network performance, identifying and repairing network issues, maintaining and upgrading server hardware and software, maintaining and upgrading workstations' hardware and software, performing virus and spyware scans and updates on workstations and servers, performing backups and checking data integrity; performing bi-monthly snapshot images of service to ensure redundancy; ordering, installing, and configuring new workstations for domain and MACC software, maintaining office network cabling, assisting MACC in performing upgrades to MACC software programs, maintaining network connectivity between the company's offices, installing and maintaining network printers, administering records of network properties (including passwords), researching new methods, assist setup of all software related items to the network procedures and technologies to improve office network functions, researching new viruses and malware to prevent potential outbreaks within the network, setting up and maintaining computer/electronic based equipment in the office, diagnosing and repairing remote switch problems, etc. Monitored by the Plant Manager by onsite review, periodic meetings, and consideration of feedback from other managers.

2. 15% Repairs PC's for the purpose of ensuring service is provided timely and appropriately to those customers needing PC repair services. Tasks may include diagnosing problems based on customer descriptions and diagnostic tests, providing problem explanations and repair recommendations to customers, identifying and repairing hardware, software, virus and spyware problems, upgrading hardware and software per customer request, maintaining small inventory of hardware, preparing customer work orders to ensure customers are charged appropriately for products and services purchased, etc. Monitored by the Plant Manager by observation and consideration of feedback from customers.

3. 10% Handles Internet help desk calls for the purpose of responding to customer questions and problems in a timely and professional manner. Tasks may include assisting customers in figuring out Internet troubles that cannot be resolved at the Nex-Tech help desk, diagnosing problems, recommending solutions; walking customers through fixes, assisting plant technicians in DSL troubleshooting and installation, troubleshooting DSL issues with Nex-Tech and at customer locations, serving as a liaison with technical support, etc. Monitored by the Plant Manager through observations and consideration of feedback from customers.

*(Continually looks for new and improved ways of completing the above functions. Other tasks as assigned by supervisor will be performed in order to address unexpected situations or needs that may arise.)*

**RESPONSIBILITIES:**

This position requires the ability to participate as a member of a team to complete tasks and engage in problem solving activities. Also, must relate well with others since information has to be obtained on occasion from others and informal training/coaching provided. There is internal and external contact at all levels of organizations requiring negotiation, persuasion, and diplomacy with customers and vendors. Participation in strategic planning involves providing input to the process and content at least annually.

**LATITUDE:**

Most duties are assigned with the performer planning and arranging tasks in order to accomplish responsibilities. Problem solving is accomplished independently most of the time. Some decisions not effecting other departments can be made independently in accordance with company policy. Purchase decisions up to $500 can be made independently.

**IMPACT OF POSITION:**

Successful completion of essential job tasks ensures efficient use of time and effective completion of job duties. Errors are not easily detected and are not subject to detailed review. This can result in errors significantly effecting relationships, loss of customers, and moderate monetary impact.

**CUSTOMER SERVICE/INTERACTION:**

Daily phone, face-to-face, and written interaction with employees throughout the company to perform job functions.

Customers are contacted daily by phone, face-to-face and written interaction to perform job functions while vendors are contacted weekly.

**ESSENTIAL SKILLS & REQUIREMENTS:**

**EDUCATION:**

Bachelor's degree in MIS, IT, or computer science, preferred.
Associate's degree in MIS, IT, or computer science, required.
High school diploma, required.

**SKILLS:**

Administrative
Technical
Human relations
Conceptual
Political
Decision making
Problem solving
Writing
Oral Communication

Phone
Math
Computer

**EXPERIENCE:**

One year in Windows 95/98/ME/2000/XP, required.
One year in PC trouble shooting, required.
One year in networking, required.

**LICENSE:**

Valid KS driver's license and a good driving record, required.

**EQUIPMENT:**

Computer, phone, and general office equipment

**PHYSICAL:**

Frequent bending, carrying, manual dexterity, visualizing of a computer screen, squatting, twisting, and turning, and lifting up to 40 pounds independently, required.

**TRAINING:**

Safety training within the company successfully completed within six months, required.
A+ certification training outside of the company successfully completed within six months, required.
Network + Certification training outside of the company successfully completed within one year, required.
Microsoft Certification training outside of the company successfully completed, as needed, required.
Ongoing training as required by the company.

**WORK CONDITIONS:**

Office environment and field conditions.

**OTHER:**

Occasional overnight travel, required
Occasional travel by vehicle, required
Frequent on call, required
Occasional overtime, required
Occasional air travel, required
Occasional private air travel, required

**EMPLOYEE SIGNATURE:** ______________________ **DATE:** ______________________

**SUPERVISOR SIGNATURE:** ______________________ **DATE:** ______________________

In the Matter of the Application )
of Kansas Gas Service, A )
Division of ONEOK, Inc. for ) DOCKET NO. 12-KGSG-835-RTS
Adjustment of its Natural Gas )
Rates in the State of Kansas )



**DIRECT TESTIMONY**

**OF**

**DAVID N. DITTEMORE**

**ON BEHALF OF**

**KANSAS GAS SERVICE**

**A DIVISION OF ONEOK, INC**

**DIRECT TESTIMONY**

**OF**

**DAVID N. DITTEMORE**

**KANSAS GAS SERVICE**

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

## I. INTRODUCTION

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

A. My name is David N. Dittemore. My business address is 7421 West 129th Street, Overland Park, Kansas, 66213.

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

A. I am employed by Kansas Gas Service a Division of ONEOK Inc. (KGS or Company). I am the Manager of Rates and Regulatory Affairs.

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

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of Central Missouri in 1982. I am a Certified Public Accountant. I was previously employed by the Kansas Corporation Commission (“Commission” or "KCC") in various capacities including Managing Auditor, Chief Auditor and Director of Utilities. During my career I have been employed by WorldCom (telecommunications) and the Williams Companies (Williams Energy Marketing and Trading). From 2003 – 2007 I was self employed providing regulatory consulting services on behalf of clients dealing with telecommunications, electric and natural gas regulatory issues.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

A. Yes. I have testified before the Commission on a number of occasions.

**Q. COULD YOU PLEASE EXPLAIN THE SCOPE OF YOUR TESTIMONY?**

A. Yes. I am providing testimony supporting the Company's Revenue Normalization Adjustment (RNA) tariff proposal. In addition, I am sponsoring the following adjustments:

Adjustment Listing

| Adjustment Number | | Amount |
|---|---|---|
| PLT 1 CWIP | $ | 14,237,712 |
| PLT 3 Asset Retirement | $ | (3,255,910) |
| ADA 2 Accumulated Depreciation - Asset Retirements | $ | 3,255,910 |
| PLT 6 Reclassification of Plant | $ | 0 |
| WC 2 ADIT | $ | 33,759,366 |
| WC 3 ADIT | $ | 10,382,007 |
| WC 4 ADIT | $ | 140,671 |
| WC 5 ADIT | $ | (4,032,773) |
| IS 13 Pension/OPEB Expense | $ | 5,184,587 |
| IS 14 Amort. Of Accum. Pension/OPEB Costs | $ | 4,602,429 |
| IS 15 Employee Medical Reserve | $ | 587,928 |
| IS 16 Elimination of Non-Recurring OPEB Costs | $ | (2,937,792) |
| IS 17 Charitable Contributions | $ | 75,443 |
| IS 18 KCC/CURB Assessments | $ | 64,948 |
| IS 19 Income Taxes | $ | (4,501,926) |
| IS 20 Out of Period Costs | $ | (225,411) |
| IS 21 Amort. Of Rate Case Expense | $ | 379,414 |

## II. REVENUE NORMALIZATION ADJUSTMENT

**Q. PLEASE PROVIDE AN OVERVIEW OF THE REVENUE NORMALIZATION ADJUSTMENT (RNA).**

A. The RNA mechanism is a form of decoupling which eliminates the relationship between the level of consumption and revenue. As explained by the KCC, "decoupling" is the separation of fixed cost recovery from the volumetric portion of rates so the utility is able to maintain revenue stability.[1] The RNA mechanism

[1] Final Order, Docket No. 08-GIMX-441-GIV ("441 Docket") dated November 14, 2008, page 19, paragraph 58.

is very straightforward. It simply compares future actual revenue results, computed based upon the average revenue per customer, with the revenue and billing determinants approved in this base rate proceeding. The difference (positive or negative) is refunded to or collected from customers of the affected classes ratably the following year through a fixed monthly surcharge or credit. Since this mechanism encompasses all changes in usage, regardless of the cause, the current Weather Normalization Adjustment ("WNA") mechanism would be wound down and eventually eliminated. This process is described later in my testimony. The RNA mechanism would apply to the Residential, General Sales Service (Small) and General Sales Service (Large) rate classifications.

**Q. COULD YOU PROVIDE AN EXAMPLE OF HOW THE ANNUAL CALCULATION WOULD WORK?**

A. Yes. As contained in Exhibit PHR-5 of the testimony of Mr. Paul Raab, the proposed Residential Revenue is $227,455,682, with a corresponding level of residential customers of 575,841. Dividing the two numbers produces an average base revenue per customer of $395.00[2]. For purposes of this illustration, I will use a benchmark of $395 annual revenue per customer. Assume after the first year that new base rates are implemented, KGS's actual residential revenue per customer from base rates is $391. When the actual residential revenue per customer ($391) is compared to the average base revenue per customer ($395), there is a difference (negative) of $4 per customer. Upon approval by the Commission of the calculation through a compliance filing, KGS would collect the $4 shortfall through a charge of $0.33/month, beginning in April the following year. Conversely, if the actual revenue per customer is $399,

[2] The numerator will be the Commission approved pro-forma revenue for each of the following classes; Residential, General Service (Small) and General Service (Large) classes. The KGS proposed revenue is shown for illustration purposes.

there would be an equivalent credit to customers of $0.33 per month. The process is identical for the two General Sales Service classes.

**Q. WILL THERE BE A TRUE-UP MECHANISM ASSOCIATED WITH THE RNA?**

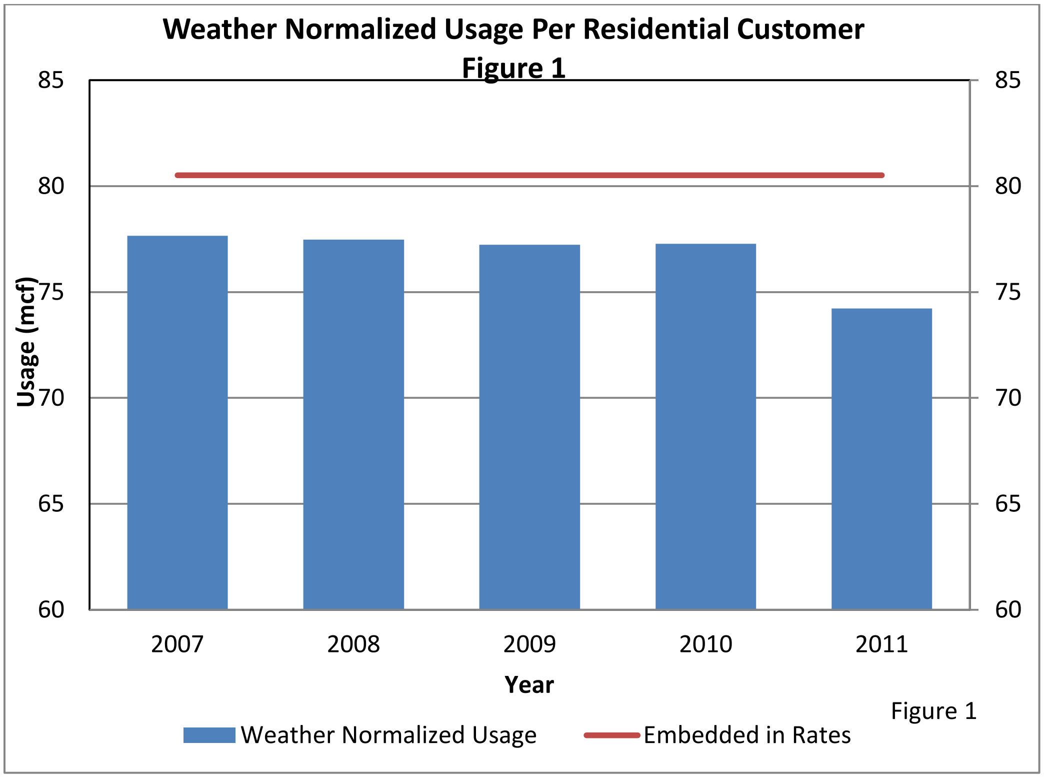
A. Yes. Authorized true-up revenues will be compared with actual RNA revenues and any differences will be incorporated into the next RNA calculation. KGS would make an annual compliance filing for Commission approval of the annual surcharge.

**Q. YOU'VE USED THE PHRASE 'BASE REVENUE'. PLEASE EXPLAIN THE SIGNIFICANCE OF BASE REVENUE IN THE RNA CALCULATION.**

A. Base revenue is derived from rates established in a general rate proceeding and consists of revenues collected from the service charge and volumetric commodity rates. New revenue sources, such as subsequently approved Gas System Reliability Surcharge ("GSRS") rates would not factor into the calculation since the corresponding GSRS investment is not included in this base rate proceeding. Other revenue sources, such as the recovery of increasing levels of ad-valorem taxes and the weather normalization recoveries would not be included in base revenues, nor the actual revenues to which the base revenues are compared. Thus, the mechanism applies only to those revenue levels authorized in this proceeding, compared with actual revenue generated from rates approved in this proceeding.

**Q. PLEASE EXPLAIN WHY KGS IS PROPOSING A REVENUE NORMALIZATION ADJUSTMENT AT THIS TIME.**

A. KGS's revenue stream is heavily dependent upon throughput. In the most recent KGS rate proceeding, Docket No. 06-KGSG-1209-RTS ("1209 Docket"), 53.76% of the KGS Residential revenue requirement was designed to be derived from revenue generated from throughput. As the following Figure 1 demonstrates, KGS Residential Sales (Weather Normalized) per customer have decreased significantly from the level used to establish base rates in the 1209 Docket, which utilized a test year ending December 31, 2005. The existing Residential volumetric rate of $2.123/MCF, applied to the decline in the weather normalized usage per customer, imposes a significant financial burden on KGS.




As shown in Figure 1 above, the weather normalized consumption used to establish base rates for Residential customers in the 1209 Docket was 80.52 MCF/yr. For the 2011 test year, weather normalized consumption dropped to 74.23/MCF/yr.

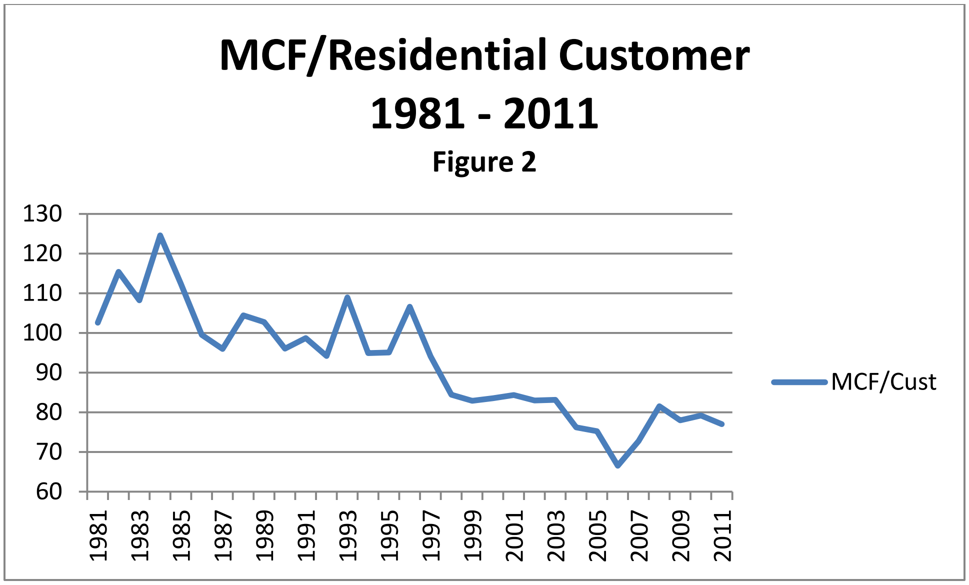
**Q. COULD YOU EXPLAIN THE SIGNIFICANCE OF YOUR REFERENCE TO WEATHER NORMALIZED CONSUMPTION RATHER THAN SIMPLY ACTUAL CONSUMPTION?**

A. Yes. In 2000 the Commission authorized KGS to implement a weather normalization adjustment which provides protection to both customers and shareholders from abnormal weather on an annual basis. Each year in March, KGS submits a filing with the Commission identifying the variation in consumption due to abnormal weather based upon coefficients established in the last base rate case proceeding. The weather variation is tracked by KGS and if weather is colder than normal, a refund is established. If the weather is warmer than normal, a charge is implemented for the subsequent year. The credit or charge is assessed on a volumetric basis and includes a reconciliation component in the annual filing. This weather adjustment applies only to the portion of the customers' bill associated with KGS base rates. It does not apply to the gas cost portion of customers' bills. Therefore, when evaluating usage patterns over time it is essential to eliminate the variation due to abnormal weather, consistent with the treatment of variable weather through the WNA mechanism.

**Q. MR. DITTEMORE, DO YOU THINK THE TREND OF REDUCED CONSUMPTION WILL CONTINUE?**

A. Yes. Despite the significant reduction in customer bills due to the decline in natural gas prices, consumption continues to decline as it has for the past thirty years. As customers continue to replace older less efficient appliances with newer more efficient models, the long-term trend of declining consumption will continue.

The following Figure 2 depicts the trend in actual residential consumption over the past thirty years.




The long-term results shown in Figure 2 are consistent with the short-term results shown in Figure 1 and demonstrate the decline in consumption. This data represents actual rather than weather normalized consumption.

**Q. HAS THE COMMISSION ACKNOWLEDGED THE TREND OF DECLINING CONSUMPTION?**

A. Yes. In Docket No. 08-GIMX-441-GIV (the "441 Docket'), the KCC in its final order stated:

> *The Commission is aware that natural gas utilities face a unique situation in that natural gas usage per customer in general has declined over recent years*[3].

**Q. HAS THE KCC INDICATED IN PREVIOUS DOCKETS THAT IT IS OPEN TO DECOUPLING PROPOSALS?**

A. Yes. In the same docket, the KCC stated:

> *However, the Commission wishes to acknowledge that it will consider decoupling proposals from natural gas companies with concerns about revenue stability. Gas companies with such concerns are invited to make an application to the Commission, and the Commission will address each application on a case-by-case basis*[4].

---

[3] Final Order, page 19, paragraph 56.
[4] Final Order, page 20, paragraph 60.

**Q. DOES KGS PROPOSE TO EXTEND THE RNA PROPOSAL BEYOND THE RESIDENTIAL CLASS?**

A. Yes. KGS proposes to implement the RNA for the GS Small and GS Large classes. This proposal is designed to more closely match the cost to serve these customers and the rates charged to them. Those two classes represent 70.7% for GS Small and 27.9% for GS Large of the total GS class. Like the residential customers, the customers in these two GS classes continue to replace their older less efficient appliances and equipment with newer more efficient models, which also reduces their consumption.

**Q. WHY IS KGS NOT APPLYING THE RNA MECHANISM TO THE THIRD GENERAL SERVICE CLASS ("GENERAL SALES TRANSPORT ELIGIBLE")?**

A. The largest class, General Sales Transport Eligible ("GSTE") contains customers whose volumes are significant enough to currently qualify for transportation service, but who have voluntarily chosen to remain a sales customer. These transport eligible customers may elect to migrate to the transportation class where they then are responsible for arranging their own gas supply. Thus, to the extent these GSTE customers migrate to transportation service, KGS may experience no underlying economic harm, but the revenue per customer within this class would decline. Since customers within this newly proposed class are subject to migration, KGS is not proposing to apply the RNA to this class.

**Q. DOES KGS REALIZE ANY MATERIAL REDUCTIONS IN ITS COSTS AS A RESULT OF THE REDUCTION IN THROUGHPUT PER CUSTOMER THE UTILITY HAS EXPERIENCED?**

A. No. As discussed by Mr. Paul Raab, the only material costs that vary with throughput are those costs covered by the Company's Cost of Gas Rider. KGS's costs included in base rates are by and large fixed in nature. Therefore, there is a mismatch between the fixed costs KGS incurs and the related revenue collection, which is dependent upon throughput. As recognized by the KCC in the 441 Docket, the RNA mechanism reconciles this mismatch.[5]

**Q. HAVE YOU QUANTIFIED THE REVENUE EFFECT OF NOT HAVING AN RNA IN PLACE FROM THE TIME OF YOUR LAST RATE CASE?**

A. Yes. Figure 1 above demonstrates the significant decline in Residential volumes. The average Residential customer usage has dropped approximately 6.29 MCF from the level adopted by the Commission to set rates in the 1209 Docket. The 6.29 MCF applied to the current commodity rate of $2.123 multiplied by KGS's Residential customer base indicates a revenue decline of approximately $7.7 Million in 2011 compared to revenues calculated for the Residential class in the 1209 Docket.

**Q. HAS KGS PROPOSED TO RECOVER THE RNA THROUGH A VOLUMETRIC SURCHARGE?**

A. No. The RNA would be collected, or refunded through a fixed monthly charge. As discussed earlier, KGS currently has a disparity between how its costs are incurred (fixed) and its rate structure which is heavily dependent upon throughput. Since the RNA is intended to solve the problem created by having fixed costs recovered through a volumetric rate, the collection or refund of RNA amounts should not be recovered through a volumetric charge. KGS believes it is appropriate to move towards a rate structure that more closely reflects how its costs are incurred, and thus recommends that the RNA balance be recovered or credited through a fixed rate.

**Q. WHAT IMPACT WILL WEATHER HAVE ON THE RNA?**

[5] Final Order, page 19, paragraph 58.

A. The weather will be the controlling factor impacting the outcome of the RNA. If weather is abnormally cold, the RNA will most likely produce a credit; if the weather is abnormally warm, the RNA will most likely produce a surcharge. The surcharge or credit will also be impacted by customer usage for reasons unrelated to the weather.

**Q. ARE YOU AWARE OF HOW WIDESPREAD REVENUE DECOUPLING IS AMONG NATURAL GAS UTILITIES?**

A. The American Gas Association reports that as of March, 2012, 48 natural gas utilities operating in twenty-one states have approved decoupling tariffs. Company witness Paul Raab provides additional testimony regarding decoupling.

**Q. EARLIER YOU MENTIONED THAT KGS PROPOSES TO WIND DOWN THE WNA MECHANISM. PLEASE EXPLAIN HOW THAT PROCESS WOULD OCCUR.**

A. The current WNA process includes a calculation period (twelve months ended February 28$^{th}$) and a collection period (twelve month period ending March 31$^{st}$). The calculation period is the basis for the subsequent WNA charge or credit, while the collection period is the annual period over which the charge or credit is applied. Upon approval of the RNA by the KCC, and the Commission's subsequent approval of the filed RNA tariff, KGS would terminate the calculated WNA. At that time, the WNA balance would be determined (including the cumulative adjustment from prior periods). No further WNA accruals to KGS revenue would occur. This final WNA balance would then either be recovered from, or credited to, customers over the subsequent twelve months. Therefore, there would be no overlap between the WNA mechanism and the RNA mechanism other than the collection or refund of amounts previously accrued on the books of KGS pursuant to the WNA.

**Q. DOES THE RNA MECHANISM HAVE IMPLICATIONS FOR THE MANNER IN WHICH KGS RECORDS REVENUE?**

A. Yes. KGS will record a monthly accrual to increase or decrease actual Residential revenue to match the calculated monthly revenue according to Figure 3 below. The total of the monthly residential volumes equals the weather normalized residential volumes used in Paul Raab's adjustment IS 8. Similar calculations will be performed to determine the monthly GS Small and GS Large revenue that ties to the approved revenue per customer authorized in this proceeding.

**Figure 3**
**Kansas Gas Service**
**Calculation of Monthly Revenue Accruals**

| | Designed Volumes | Monthly Revenue Target |
|---|---|---|
| January | 16.81 | 55.86 |
| February | 15.13 | 52.21 |
| March | 9.68 | 40.34 |
| April | 6.33 | 33.03 |
| May | 2.97 | 25.72 |
| June | 1.18 | 21.81 |
| July | 1.39 | 22.28 |
| August | 1.22 | 21.91 |
| September | 0.92 | 21.25 |
| October | 1.32 | 22.13 |
| November | 5.46 | 31.14 |
| December | 12.89 | 47.32 |
| Total | 75.31 | $395.00 |

| **Proposed Rates** | |
|---|---|
| Service Charge | 19.25 |
| Commodity Charge | 2.1777 |

**III. CONSTRUCTION WORK IN PROGRESS AND RETIREMENT AND RECLASSIFICATION OF PLANT ADJUSTMENTS**

**Q. PLEASE TURN TO THE ADJUSTMENTS YOU ARE SPONSORING BY EXPLAINING ADJUSTMENT PLT 1.**

**A,** Adjustment PLT 1 increases Rate Base $14,237,712. The adjustment reflects balances of Construction Work in Progress ("CWIP") at the end of the test period which will be in-service by December 31, 2012.

**Q. WHAT IS THE BASIS FOR INCLUDING PLANT IN RATE BASE THAT WILL BE COMPLETED SUBSEQUENT TO THE TEST PEROID?**

A. This adjustment is consistent with K.S.A. 66-128(b)(2) which states:

"(b) (1) For the purposes of this act, except as provided by subsection (b)(2), property of any public utility which has not been completed and dedicated to commercial service shall not be deemed to be used and required to be used in the public utility's service to the public.

(2) Any public utility property described in subsection (b)(1) shall be deemed to be completed and dedicated to commercial service if: **(A) Construction of the property will be commenced and completed in one year or less**; (B) the property is an electric generation facility that converts wind, solar, biomass, landfill gas or any other renewable source of energy; (C) the property is an electric generation facility or addition to an electric generation facility; or (D) the property is an electric transmission line, including all towers, poles and other necessary appurtenances to such lines, which will be connected to an electric generation facility." (Emphasis added)

**Q. DOES THE PROPERTY INCLUDED IN THE CWIP ADJUSTMENT MEET THE CRITERIA SPECIFIED IN THE STATUTE?**

A. Yes. As allowed under (b)(2)(A), KGS's CWIP adjustment is limited to projects that have been or will be completed within one year or less after the test year. Items (b)(2)(B-D) are unique to the electric industry and thus do not apply to the KGS CWIP adjustment.

**Q. COULD YOU PLEASE INDICATE HOW THE ADJUSTMENT WAS DETERMINED?**

A. Yes. I included the costs of CWIP projects on the books of KGS as of December 31, 2011, of $14,237,712. This is a conservative amount of the ultimate cost of projects that will be in-service within twelve months of the end of the test period.

**Q. WHY SHOULD THIS BE CONSIDERED A CONSERVATIVE AMOUNT?**

A. The costs of projects included in this account will grow as they are completed and in-service. KGS will monitor the costs associated with these projects and update Staff periodically during the course of its investigation. KGS requests that as the actual costs of these completed projects become known they be included by Staff in its audit review with appropriate adjustments to rate base.

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT PLT 3 AND ADA 2.**

A. KGS Adjustment PLT 3 reflects the amount of retired assets associated with the inclusion of CWIP in Rate Base identified in Adjustment PLT 1. The adjustment has no effect on net plant in service as the amount of the adjustment ($3,255,910) reduces gross plant and its offset, Accumulated Reserve for Depreciation, Adjustment ADA 2, by the same amount.

Q. **IF THE ADJUSTMENT HAS NO IMPACT ON RATE BASE, WHY IS IT NECESSARY?**

A. The adjustment is necessary to reflect the appropriate balance of depreciable plant in this proceeding upon which to determine the proper level of pro-forma depreciation expense. Therefore, while the adjustment does not impact the nominal value of Rate Base, it does impact the overall revenue requirement through the annualized depreciation adjustment calculation. The support for the adjustment is that some KGS assets will be retired as a result of the installation of new assets associated with Adjustment PLT 1 and to ensure a proper matching, the retirements associated with the new CWIP projects should be recognized.

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT PLT 6.**

A. Adjustment PLT 6 reclassifies $227,227 from Account 380, Services to Account 376.4 Mains-Cathodic Protection. This adjustment is necessary to transfer

Cathodic Protection associated with the Services account to the Amortizable cathodic protection account. Dr. White supports the amortization proposal related to the adjusted balance of Account 376.4 within his study. Because it is a reclassification adjustment between plant accounts, there is no net change to rate base.

## IV. ACCUMULATED DEFERRED INCOME TAX LIABILITY

### A. INTRODUCTION

**Q. MR. DITTEMORE, YOU SPONSOR FOUR DIFFERENT ADJUSTMENTS TO THE ACCUMULATED DEFERRED INCOME TAX LIABILITY. PLEASE BEGIN BY DEFINING ACCUMULATED DEFERRED INCOME TAXES (ADIT).**

A. ADIT is the account used to record the cumulative differences between Income Tax Expense recorded pursuant to Generally Accepted Accounting Principles (GAAP) for financial reporting purposes and actual income taxes paid to taxing authorities. While there are a number of contributing factors impacting ADIT balance, generally, the ADIT is a net liability rather than an asset. Significant activity in this account is driven by accelerated tax depreciation contrasted with more conservative book depreciation. These differences in depreciation levels create a difference between 'book income' and 'taxable income' which, when applied to the effective tax rate, results in an entry to the ADIT account, usually creating a liability. The difference between book and tax depreciation rates turns around over time and thus is an example of what is termed a temporary difference. As an asset becomes fully depreciated for tax purposes, the book depreciation continues and the difference between the two cumulative depreciation balances is reduced until it is eventually eliminated, resulting in the elimination of the ADIT balance for that particular asset. Temporary differences affect the timing of the payment of income taxes contrasted with the recognition of Income Tax Expense per GAAP. Over time, however, these temporary differences are eliminated. During the period of time when the annual tax depreciation amount is greater than the annual book depreciation of an asset, the taxable income will be lower and thus taxes paid will be lower than the related book income tax expense, creating a deferred tax liability. When the turn-around occurs the book depreciation will be higher than the tax depreciation, thus producing a lower book income, resulting in a lower income tax expense compared with taxes paid, which reduces the deferred tax liability.

**Q. PLEASE EXPLAIN HOW THE ADIT ACCOUNT IS TREATED FOR RATEMAKING PURPOSES?**

A. The typical regulatory treatment of the ADIT balance is to reflect it as an offset to Rate Base. This is appropriate because the ADIT liability represents a source of financing to the utility. The application of the ADIT balance as a Rate Base offset is generally not a source of contention in rate proceedings. As shown in Schedule 6-D of the Application, KGS has recorded a net ADIT Liability of ($254,920,319) as of 12/31/11. The pro-forma balance of $214,671,048 is treated as an offset to Rate Base, consistent with traditional regulatory treatment.

**Q. HOW IS THE RELATED INCOME TAX EXPENSE DETERMINED FOR RATEMAKING PURPOSES?**

A. Income Tax Expense for ratemaking purposes is comprised of two components, current and deferred income tax expense. The current tax expense is that which is calculated from taxable income using accelerated tax depreciation, while the deferred component utilizes the difference between the accelerated and straight line depreciation, using KCC approved depreciation rates. Recognition of Deferred Tax Expense is required pursuant to GAAP as well as for establishing rates. The ADIT balance is used to track the difference between taxes paid and that recorded on the books of KGS as the total income tax expense.

**B. ADJUSTMENT WC 2**

**Q. PLEASE NOW TURN TO ADJUSTMENT WC 2 AND EXPLAIN WHY THIS ADJUSTMENT IS NECESSARY.**

A. Adjustment WC 2 reduces the ADIT Liability (thus increasing Rate Base) $33,759,366. This adjustment is necessary to eliminate the impact of pension and Other Post Employment Benefit (OPEB) funding on KGS ADIT balance and is consistent with the Stipulation and Agreement in Docket No. 10-KGSG-130-ACT ("130 Docket").

**Q. PLEASE BEGIN BY PROVIDING AN OVERVIEW OF THE 130 DOCKET.**

A. The 130 Docket dealt with fairly complex accounting/funding issues related to utility pension and OPEB costs. Essentially, OPEB costs are those costs accrued to provide retiree benefits such as medical and dental coverage. The Order permitted KGS to defer, as a regulatory asset or liability, differences between current year GAAP Pension/OPEB expense and those corresponding expense levels included in each utility's revenue requirement determined in its most recent rate case[6]. The other major element of the approved Order was that the utilities were required to make contributions to an external trust fund. KGS has greatly exceeded the funding requirements set forth in the Order.

**Q. WHAT IS THE IMPLICATION OF THIS OVER-FUNDING ON THE BALANCE OF ADIT?**

A. The cumulative pension/OPEB funding in excess of that recorded as a book expense has resulted in an increase in the ADIT balance of $33,759,366. The reason is that the funding is deductible for tax purposes, while the lower book

[6] The amortization of this balance is presented as adjustment IS 14.

expense is used within the calculation of the deferred tax expense. This difference between the funding level and the book expense creates a deferred tax liability.

**Q. DO CUSTOMERS BENEFIT FROM FUNDING IN EXCESS OF THAT REQUIRED IN THE 130 DOCKET?**

A. Yes. The increased funding reduces future years' annual expense because one component within the annual expense calculation is the expected return on assets. The contributions contribute to the pension/OPEB asset base, thus increasing the expected return. The increase in the expected return has the effect of reducing the annual expense for both the pension and OPEB expense, thus benefitting customers.

**Q. DOES THIS EXCESS FUNDING RESULT IN AN ASSET THAT IS INCLUDED IN RATE BASE?**

A. No. The Order in the 130 Docket provided there would be no rate base recognition for any excess contributions beyond the pension/OPEB funding requirements. KGS has not included a rate base additive for its level of funding in this application. The pertinent language from the KCC's order in the 130 Docket is:

> *B. KGS's application with respect to Tracker 2, to establish a regulatory asset/liability account to accumulate the difference between the current year pension/OPEB contribution to its established trusts and current year GAAP pension/OPEB costs, not as a component of rate base as set forth by Staff's recommendation is hereby approved.*

**Q. HOW DOES THIS LANGUAGE SUPPORT YOUR ADJUSTMENT TO ELIMINATE THE ADIT LIABILITY ASSOCIATED WITH THIS EXCESS FUNDING?**

A. Absent this adjustment, KGS would be penalized for its excess funding through a reduction in rate base. The excess funding has benefited customers and KGS should not be faced with a reduction to its rate base, through its ADIT account, as a direct result of its level of funding. The language in the Order indicates there should be no rate base recognition of the excess funding as an additive to rate base. To be consistent with the intent of the Order, rate base should not be reduced for the tax liability generated as a result of the funding.

**C. ADJUSTMENT WC 3**

**Q. PLEASE IDENTIFY ADJUSTMENT WC 3 TO RATE BASE?**

A. Adjustment WC 3 increases rate base $10,382,007 by reducing the ADIT Liability to update the Net Operating Loss (NOL) balance for KGS for 2011 results.

**Q. PLEASE DEFINE NOL'S AND EXPLAIN THEIR IMPACT ON RATE BASE**

A. When a company's tax deductions exceeds its taxable income, it cannot realize the cash benefits of its deductions. This can occur due to a lack of profitability, or from other factors such as bonus tax depreciation.

**Q. PLEASE DISCUSS THE IMPLICATIONS OF BONUS DEPRECIATION.**

A. Bonus depreciation was enacted through legislation applicable to property placed in service in 2008 and 2009. Then in 2010, legislation was passed which extended bonus depreciation in 2010 and 2011. These accelerated tax deductions associated with property created significant ADIT Liabilities in the early years of the life of an asset, which as discussed earlier, is a deduction to rate base. While there are a number of items that factor into the determination of Taxable Income, the tax depreciation deduction is a major component. The NOL for a given year is multiplied by the effective tax rate to determine the ADIT Asset to record on the books, which offsets the underlying ADIT Liability created due to the excess tax deductions compared with book deductions. This means that the Company cannot realize the cash benefit of all the deductions, because it cannot reduce its tax payments below zero. Although KGS was in tax loss situation in 2011, the corresponding accounting adjustment was not made until March, 2012. Therefore, this adjustment is necessary to properly reflect the reduction in ADIT Liability necessary to match the net 2011 ADIT balance with other aspects of the revenue requirement.

**D. ADJUSTMENT WC 4**

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT WC 4.**

A. Adjustment WC 4 reduces the ADIT Liability $140,671 and is necessary to remove the impacts associated with KGS's Cost of Gas Rider. At any point in time, customers have either under or over funded the cost of gas, transportation and storage costs KGS incurs to deliver natural gas to consumers. KGS monitors the status of the over/under account and reports monthly to the KCC Staff. This difference is either taxable or tax deductible depending upon the balance. Since there is an equal likelihood of a positive or negative balance in this account going forward, I recommend that the impact of the balance at the end of the test period be removed for purposes of establishing the appropriate ADIT Liability balance used as a rate base deduction. There is no income statement impact from this issue, thus an adjustment to pro-forma revenues or expenses is unnecessary.

**E. ADJUSTMENT WC 5**

**Q. PLEASE EXPLAIN ADJUSTMENT WC 5**

A. Adjustment WC 5 reduces rate base $4,032,773 and is necessary to attribute a portion of ADIT Liability to KGS associated with the allocation of corporate plant as described by Company witness Stacey Borgstadt in Adjustment PLT 2. As discussed in her testimony, these assets are used in the provision of utility service and because they are not recorded on the books of KGS, they must be allocated. Similarly the ADIT liability associated with these assets is not recorded on the books of KGS and thus, an adjustment is necessary to properly allocate this customer provided capital to KGS.

**V. PENSION/OPEB EXPENSES – ADJUSTMENT IS 13**

**Q. PLEASE TURN TO THE INCOME STATEMENT ADJUSTMENTS YOU ARE SPONSORING AND BEGIN WITH AN EXPLANATION OF ADJUSTMENT IS 13.**

A. Adjustment IS 13 increases Pension/OPEB expense $5,184,587 to reflect the known and measurable 2012 costs for these items. The adjustment was computed by comparing the pro-forma 2012 KGS costs with those costs expensed in the test period. These test period costs were established in the 1209 Docket.

**Q. EARLIER YOU REFERENCED THE 130 DOCKET, IN WHICH KGS RECEIVED PERMISSION TO ESTABLISH A REGULATORY ASSET OR LIABILITY FOR THE DIFFERENCE BETWEEN PENSION/OPEB COSTS ESTABLISHED IN ITS LAST RATE PROCEEDING AND THOSE IT INCURRED IN THE CURRENT PERIOD. HOW DOES THAT ORDER IMPACT THIS PROPOSED ADJUSTMENT?**

A. Adjustment IS 13 measures the difference between the 2012 pro-forma costs for Pension and OPEB expense and that used as the baseline costs currently embedded in rates. The annual differences between such costs and the baseline established in the 1209 Docket have been deferred and are the subject of Adjustment IS 14.

**Q. WILL THERE BE A NEW BENCHMARK ESTABLISHED FOR PENSION AND OPEB COSTS INCORPORATED INTO FUTURE DEFERRALS FOR PENSION AND OPEB COSTS?**

A. Yes. In accordance with the Commission's Order in the 130 Docket, KGS will defer the difference between its actual costs and the benchmarks established in this case for Pension and OPEB costs respectively, as a regulatory asset or liability. KGS will continue to adhere to the funding obligations as set forth in the 130 Docket. For purposes of the deferral mechanism the new benchmarks incorporated into rates are:

| | |
|---|---|
| Pension Expense: | $9,143,934 |
| OPEB Expense: | $8,271,630 |

These amounts represent the total pro-forma Pension and OPEB costs respectively requested in Adjustment IS 13, less the portion of pro-forma costs associated with general corporate employees, since those are allocated through the ONEOK DistriGas mechanism. These common employee costs are not included in the new benchmark since they were not a component of the original costs established in the 130 Docket.

## VI. AMORTIZATION OF ACCUMULATED PENSION AND OPEB EXPENSES – ADJUSTMENT IS 14

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 14.**

A. Adjustment IS 14 amortizes the accumulated balance of Pension and OPEB costs to expense over a three year period. As discussed above these costs were deferred pursuant to the KCC's Order in the 130 Docket. The specific balances of the deferred Pension and OPEB balances are shown below:

| | | |
|---|---|---|
| Pension: | $ | 15,273,391 |
| OPEB | $ | (1,466,105) |

| | | |
|---|---|---|
| Total | $ | 13,807,286 |
| Divided by 3 Years | $ | 4,602,429 |

**Q. PLEASE EXPLAIN WHY THE BALANCE OF THE OPEB DEFERRAL IS NEGATIVE?**

A. The annual OPEB costs have declined from those included in the 1209 Docket, therefore, this reduction in costs is reflected as a regulatory liability on the books of KGS.

**Q. DID THE KCC'S ORDER IN THE 130 DOCKET DISCUSS THE REGULATORY TREATMENT TO BE PROVIDED TO THE CUMULATIVE DEFERRALS IN KGS' NEXT RATE PROCEEDING?**

A. Yes. Paragraph 9 of the KCC's Order in the 130 Docket states:

> *Under Tracker 1, each company will establish a regulatory asset or liability to record differences between current year GAAP Pension/OPEB Expenses and Pension/OPEB Expenses in Rates. The regulatory liabilities and assets recorded in Tracker 1 will be amortized in rates on a straight line basis over a reasonable period of time, not exceeding five years, and will become effective when new rates become effective in each Applicant's next general rate proceeding.*

The KGS treatment of its net regulatory asset is consistent with the language in the Commissions' Order.

**Q. EXPLAIN WHY KGS IS RECOMMENDING THAT THE ACCUMULATED PENSION/OPEB EXPENSES BE AMORTIZED OVER THREE YEARS?**

A. KGS is required to amortize the cumulative difference over a reasonable period of time not to exceed five years under the KCC Order in the 130 Docket. The three year amortization period proposed by KGS is within the time frame set forth by the Commission. KGS is not allowed to earn a return on the deferred amount. Therefore, a period shorter than five years is reasonable.

## VII. EMPLOYEE MEDICAL RESERVE ADJUSTMENT IS 15

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 15.**

A. Adjustment IS 15 increases Operating Expenses $587,928 by reflecting the increase in 2012 employee medical reserve accruals compared with 2011 levels.

## VIII. ELIMINATION OF NON-RECURRING DEFERRED PENSION/OPEB COSTS ADJUSTMENT IS 16

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 16.**

A. Adjustment IS 16 decreases Operating Expenses $2,937,792. This adjustment is necessary to eliminate the amortization of deferred OPEB costs that are non-recurring in nature. In KGS's 2003 rate case, Docket No. 03-KGSG-602-RTS, the Commission approved an S&A whereby KGS would be permitted to amortize its previously deferred OPEB costs. The amortization period expires in 2012 and thus KGS's test period Amortization Expense should be reduced by $2,937,792.

## IX. CHARITABLE AND CIVIC CONTRIBUTIONS ADJUSTMENT IS 17

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 17.**

A. Adjustment IS 17 increases Operating Expenses $75,443. This adjustment enables the Company to recover 50% of its charitable and civic contributions. K.S.A. 66-1,206(a) provides that public utilities shall recover in rates 50% or more of dues, donations and contributions to charitable, civic and social organizations. This adjustment is consistent with past Commission practice of authorizing recovery of 50% of such expenditures through rates. The adjustment also eliminates costs for sports tickets and sponsorships incurred during the test year.

## X. KCC/CURB ASSESSMENTS ADJUSTMENT IS 18

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 18.**

A. Adjustment No. IS 18 increases Operating Expenses $64,948 as a result of post test period increases in KCC and CURB assessments. This adjustment was determined by totaling the fiscal quarterly assessments recorded in the 3rd and 4th quarters of 2011, plus those recorded in the 1st and 2nd quarters of 2012 compared with those costs recorded in the test period. The result is an increase in such costs of $64,948.

**XI. INCOME TAX EXPENSE**

**Q. PLEASE EXPLAIN ADJUSTMENT IS 19.**

A. Adjustment IS 19 reduces Operating Expenses $4,501,926 by updating Income Tax Expense for the various adjustments proposed by KGS in this application. This adjustment is necessary to synchronize income tax expense with the pro-forma adjustments as shown on Schedule 11-A. It also incorporates the interest synchronization as shown on Schedule 11-G.

**XII. NON-RECURRING COSTS**

**Q. PLEASE EXPLAIN ADJUSTMENT IS 20.**

A. Adjustment IS 20 reduces Operating Expenses $225,411 by eliminating costs associated with lease expense and Sales Tax that were recorded in the test period, but relate to prior periods. This adjustment is necessary to normalize test period costs.

**XIII. AMORTIZATION OF RATE CASE COSTS**

**Q. WHAT IS THE PURPOSE OF ADJUSTMENT IS 21?**

A. Adjustment IS 21 increases Operating Expenses $379,414 to reflect a three-year amortization of estimated rate case expenses arising from this application. These costs should be trued up at the end of the proceeding based upon the actual costs incurred.

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

A. Yes.

**VERIFICATION**

STATE OF KANSAS )
) ss.
COUNTY OF JOHNSON )

David Dittemore, being duly sworn upon his oath, deposes and states that he is Manager of Rates and Regulatory Affairs 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.

David N. Dittemore
NAME

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. 9/28/2012

| | | |
|---|---|---|
| In the Matter of the Application | ) | |
| of Kansas Gas Service, A | ) | |
| Division of ONE Gas, Inc. for | ) | DOCKET NO. 16-KGSG-___-RTS |
| Adjustment of its Natural Gas | ) | |
| Rates in the State of Kansas | ) | |

**DIRECT TESTIMONY**

**OF**

**DAVID N. DITTEMORE**

**ON BEHALF OF**

**KANSAS GAS SERVICE**

**A DIVISION OF ONE GAS, INC**

**TABLE OF CONTENTS**

**DIRECT TESTIMONY**

**OF**

**DAVID N. DITTEMORE**

**KANSAS GAS SERVICE**

**DOCKET NO. 16-KGSG-___-RTS**

**I. INTRODUCTION**

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

A. My name is David N. Dittemore. My business address is 7421 West 129th Street, Overland Park, Kansas, 66213.

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

A. I am employed by Kansas Gas Service a Division of ONE Gas Inc. ("ONE Gas") (KGS or Company). I am the Director of Rates and Regulatory Affairs.

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

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of Central Missouri. I am a Certified Public Accountant. I was previously employed by the Kansas Corporation Commission ("Commission" or "KCC") in various capacities including Managing Auditor, Chief Auditor and Director of Utilities. During my career I have been employed by WorldCom (telecommunications) and the Williams Companies (Williams Energy Marketing and Trading). From 2003 – 2007, I was self-employed providing regulatory consulting services on behalf of clients dealing with telecommunications, electric and natural gas regulatory issues. Since 2007, I have been employed by ONEOK/ONE Gas as a member of the Kansas Gas Service Regulatory Department.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

A. Yes. I have testified before the Commission on a number of occasions.

**Q. COULD YOU PLEASE EXPLAIN THE SCOPE OF YOUR TESTIMONY?**

A. Yes. The scope of my testimony includes:

1. I identify the amount of the proposed increase and the impact it will have on the average customer. My testimony includes a listing for each pro forma adjustment to Rate Base and Income Statement. (Section II);
2. I provide context for this rate increase proposal by presenting average residential bill information for the past ten years. I also provide an overview of the cost elements contained within the average customers' bill in 2015. (Section III);
3. I identify the requirements contained within the Commission's order in Docket No. 14- KGSG-100-MIS ("100 Docket") associated with the current rate case application. (Section IV);
4. I sponsor the majority of Schedules within the Minimum Filing Requirements (MFRs) pursuant to Kansas Administrative Regulations 82-1-231. (Section V);
5. I explain the pro forma adjustments to test period rate base, operating income and income tax expense that I am supporting. (Section VI); and,
6. I support the implementation of an annual Cost of Service Adjustment Mechanism. (Section VII).

**Q. PLEASE PROVIDE AN EXECUTIVE SUMMARY OF YOUR TESTIMONY**

A. The Company is seeking an overall base rate increase of $35.4 Million, and a net rate increase of $28 Million, with rates to be effective January 1, 2017. The most recent base rate increase approved for KGS became effective January 1, 2013. The proposed rate change will result in an increase to the average residential customer of $4.34 per month, net of the current Gas System Reliability Surcharge (GSRS) in effect of $0.76 per month. The GSRS will be reset to zero when the new base rates become effective, and the underlying costs supporting the surcharge are incorporated in this filing. Over the past four years KGS has experienced growth in its rate base and incurred increasing levels of Operating and Maintenance costs which have not been reflected in base rates. In addition, residential consumption has continued to decline, further reducing revenues.

The average KGS residential customer has seen significant cost reductions in their bill over the past three years as a result of the decline in the market cost of gas supplies. I compare the impact on the average customer bill of the proposed increase (assuming normal weather) with historic levels and conclude that the impact of the proposed increase should not pose a significant burden on the residential customer class.

I provide the context for the Company's rate change proposal by outlining the components of the average customer bill and conclude that 46% of the bill is comprised of KGS imposed costs (including ad valorem and income tax expense), while 48% relates to the cost of gas, including upstream transportation charges, and 6% relates to franchise fees, city and county taxes. The proposed increase confronting the Commission relates to the 46% of the average customer bill comprising those costs incurred by KGS to provide service.

My testimony includes a recommendation for a new annual mechanism, referred to as the Cost of Service Adjustment mechanism (COSA), which provides benefits for all stakeholders, and is necessary to provide KGS a reasonable opportunity to earn its authorized rate of return.

## II. EXPLANATION OF PROPOSED INCREASE AND RESIDENTIAL CUSTOMER IMPACT AND IDENTIFICATION OF WITNESSES AND THEIR ADJUSTMENTS.

**Q. WHAT IS THE AMOUNT OF THE REQUESTED INCREASE AND THE PROPOSED IMPACT ON RESIDENTIAL CUSTOMERS?**

A. Kansas Gas Service is seeking an overall increase in base rates of $35.4 Million, resulting in a net increase in rates of $28 Million, net of $7.4 Million in GSRS revenues that are reclassified to base rates. A class cost of service study was conducted by Mr. Paul Raab, which indicates that the Residential class has the lowest realized return on common equity and therefore the proposed increase is assigned to this class. The proposed residential rate increase represents an increase in rates of 14.9%, net of the rebasing of the Gas System Reliability Surcharge (GSRS). The overall proposed residential increase on total customer bills, inclusive of the cost of gas is 7.2%, based upon the weighted average cost of gas during the test period. The impact on the average residential customer is an increase of $4.34 per month, or $52.08 per year. At the date new rates become effective the current residential GSRS rate of $.76, as well as the applicable GSRS rates charged to other customer classes will be reset to zero.

**Q. COULD YOU PLEASE IDENTIFY THE TEST PERIOD PRO FORMA ADJUSTMENTS AND THE WITNESS WHO IS SPONSORING EACH ADJUSTMENT?**

**A.** Yes. The list below contained in Table DND-1 identifies the pro forma adjustments and sponsoring witness.

**TABLE DND-1**

| Adj. No. | Descriptions | Increase (Decrease) to Rate Base | Witness |
|---|---|---|---|
| PLT 1 | CWIP | $ 13,048,927 | Eaton |
| PLT 2 | Asset Retirements | (2,281,551) | Eaton |
| PLT 3 | Allocation of Corporate Assets | 61,525,376 | Turner |
| PLT 4 | Plant Assets Not Used and Useful | (4,453,249) | Eaton |

| | | | |
|---|---|---|---|
| PLT 5 | CNG Facility | $ (599,134) | Eaton |
| PLT 6 | 3rd Party Reimbursements | 1,217,964 | Eaton |
| ADA 1 | Acc. Depreciation - Asset Retirements | 2,281,551 | Eaton |
| ADA 2 | Acc. Depreciation - Corporate Assets | (16,693,239) | Turner |
| ADA 3 | Acc. Depreciation - Plant Assets Not Used and Useful | 3,164,425 | Eaton |
| ADA 4 | Acc. Depreciation - CNG Facility | 58,444 | Eaton |
| ADA 5 | 3rd Party Reimbursements | (1,217,964) | Eaton |
| WC 1 | Pre-Payments - Corporate Assets | 3,759,835 | Turner |
| WC 2 | Long Term Pre-Payments - Corporate Assets | 618,099 | Turner |
| WC 3 | ADIT - Associated with Pension/OPEB | 51,778,325 | Dittemore |
| WC 4 | ADIT - Reflect Test Year End Balance | (25,612,745) | Dittemore |
| WC 5 | ADIT - Associated with COGR | 5,274,550 | Dittemore |
| WC 6 | ADIT - Corporate | (7,916,831) | Dittemore |

| Adj. No. | Descriptions | Increase (Decrease) to Operating Income | Witness |
|---|---|---|---|
| IS 1 | Eliminate Accrued and Unbilled Revenues | $ (238,752) | Eaton |
| IS 2 | Eliminate Deferred WNA Revenues | (7,892,181) | Eaton |
| IS 3 | Eliminate Cost of Gas Revenue and Expense | 0 | Eaton |
| IS 4 | Eliminate Ad Valorem Surcharge Revenue and Expenses | 1,401,626 | Eaton |
| IS 5 | Eliminate Gas System Reliability Surcharge Revenue | (5,171,257) | Eaton |
| IS 6 | Test-year Revenue Adjustments (Flex) | (93,127) | Eaton |
| IS 7 | Weather Normalization | 10,146,344 | Raab |
| IS 8 | Revenue Annualization | 501,372 | Raab |
| IS 9 | CNG Adjustment | (12,667) | Eaton |
| IS 10 | Bad Debt Adjustment | (1,280,165) | Eaton |
| IS 11 | Annualized Depreciation on Pro Forma Plant | (828,709) | Eaton |
| IS 12 | Annualized Depreciation at Proposed Rates | (3,657,749) | Eaton |
| IS 13 | Elimination of Royalty Fee | 8,607,018 | Eaton |
| IS 14 | Transaction Credit | 3,423,957 | Eaton |

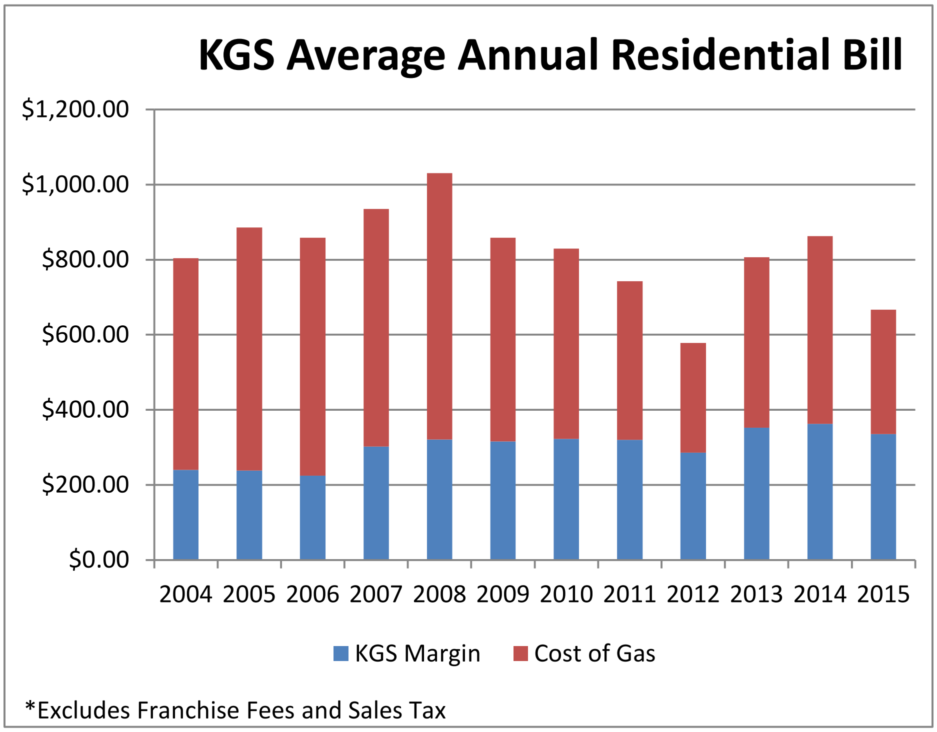
| | | | |
|---|---|---|---|
| IS 15 | Charitable Contributions and Excluded Costs | $ (13,314) | Eaton |
| IS 16 | Shared Service Adjustment | (87,002) | Eaton |
| IS 17 | Remove Certain O&M Expenses Related to unused Plant | 45,989 | Eaton |
| IS 18 | Clearing Account Adjustment | (20,760) | Eaton |
| IS 19 | Reclass Interest on Customer Deposits | (102,624) | Eaton |
| IS 20 | GTI Expense | (314,868) | Eaton |
| IS 21 | Insurance Adjustment | 97,844 | Eaton |
| IS 22 | Workers Compensation | (250,531) | Eaton |
| IS 23 | Payroll Adjustment for Union and Non Union KGS Employees | (2,364,771) | Eaton |
| IS 24 | Adjustment to Employee Medical Reserve | (658,707) | Eaton |
| IS 25 | Pension/OPEB Cost Adjustments | 2,863,179 | Eaton |
| IS 26 | Pension/OPEB Amortization | 3,168,966 | Eaton |
| IS 27 | Pension/OPEB Savings Sharing | (3,375,022) | Smith |
| IS 28 | Annualized Corporate Depreciation | (412,670) | Turner |
| IS 29 | Misc. Corporate Adjustments | 267,310 | Turner |
| IS 30 | Distrigas % Adjustment | 336,434 | Turner |
| IS 31 | Normalized Compensation (STI) | 2,217,199 | Turner |
| IS 32 | Corporate Payroll Adjustment | (1,198,841) | Turner |
| IS 33 | Corporate OPEB, Pension and Medical Benefits | 15,054 | Turner |
| IS 34 | Rate Case Cost Amortization | (326,216) | Dittemore |
| IS 35 | Income Tax Adjustment | (3,767,139) | Dittemore |

**III. RESIDENTIAL BILL HISTORY AND COMPONENTS**

**Q. PLEASE PROVIDE SOME BACKGROUND ON THE HISTORY OF THE AVERAGE RESIDENTIAL BILL OF A KGS CUSTOMER.**

**A.** Table DND-2 sets forth the annual cost of the average residential customer bill for the period 2007 – 2015, based upon actual usage, as well as the average annual cost of gas. The annual cost of gas is simply the total costs KGS incurred for its purchase of natural gas to serve customers' demands, plus the costs of upstream storage and transportation from third-party pipeline companies.

**Table DND-2**




The annual total customer bill data shown in Table DND-2 is not adjusted for variations due to weather. However, when comparing the average annual bill with total annual cost of gas charges, it is clear that customers are enjoying a significant reduction in their bills associated with the decrease in the market cost of gas.

In 2015, the average residential customer bill declined $196 from 2014 levels. This reduction can be assigned to one of three categories:

a. Reduction in KGS volumetric charges associated with reduced usage - $35.

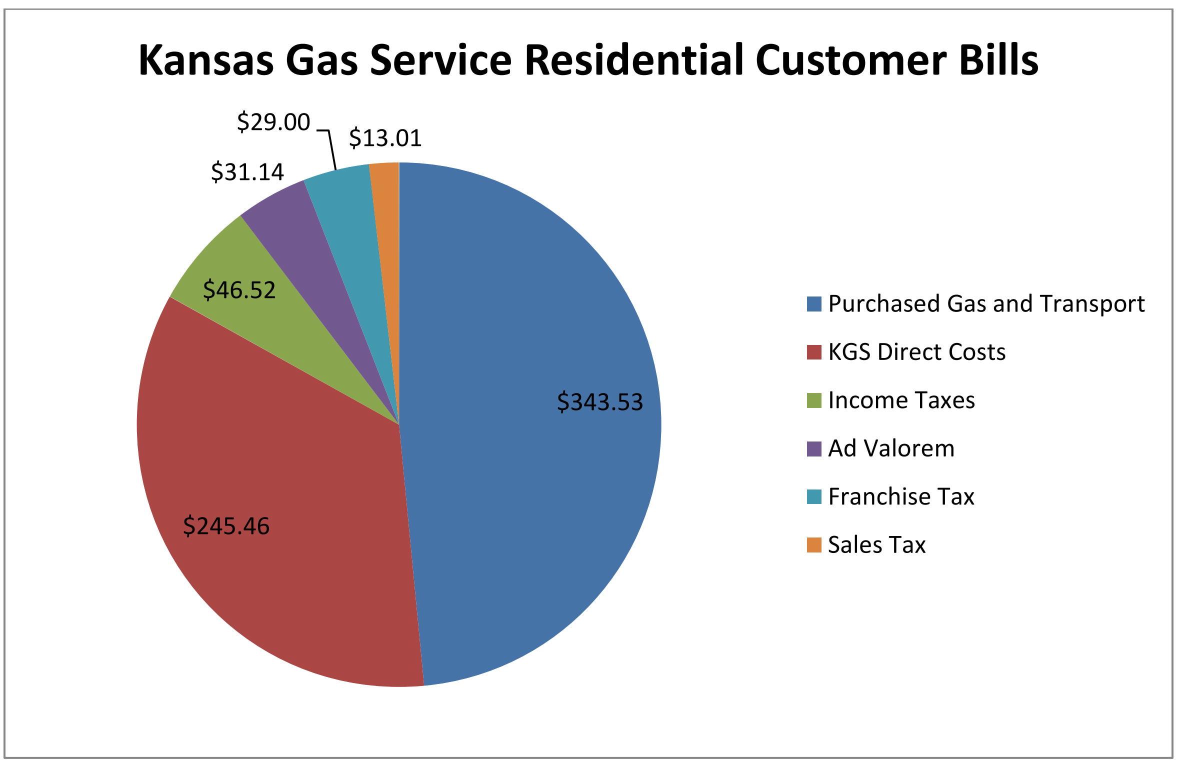
b. Reduction in COGR costs associated with reduced prices - $85.

c. Reduction in COGR costs associated with reduced usage - $76.

**Q. PLEASE DISCUSS THE MAJOR COMPONENTS OF A RESIDENTIAL CUSTOMER'S BILL?**

**A.** Table DND-3 splits out the primary components of the average 2015 residential customer's costs over the course of twelve months. In 2015, the average KGS residential customer incurred total costs of $708.66. Based upon the average actual usage of 68 MCF, approximately $344 or 48% of customer costs are associated with the cost of natural gas and related storage and transportation charges from third-party interstate pipeline companies. The base rates approved by the Commission are designed to recover not only KGS direct costs ($245.46), but also state and federal incomes taxes ($46.52) and ad valorem taxes ($31.14) that KGS incurs in providing service. The sum of these three totals $323.12, and represents 52% of the customer's bill.

**Table DND-3**



The issue in this proceeding is a proposed base rate increase that corresponds to the KGS direct costs, including a return on and a return of capital investments, as well as recovery of income and ad valorem taxes.

The average total of income taxes, ad valorem taxes, franchise fees and sales taxes levied on customers' bills in 2015 was $119.67. This total does not represent other taxes incurred in the provision of gas service, including payroll taxes as well as various taxes incurred by natural gas suppliers and interstate pipeline companies, which are incorporated into their pricing. The point of this information is to provide the Commission with some context for the proposed rate increase and its impact on total customer bills.

## IV. COMPLIANCE WITH PROVISIONS OF THE STIPULATION AND AGREEMENT IN THE 100 DOCKET

**Q. PLEASE ADDRESS THE CONDITIONS WITHIN THE STIPULATION AND AGREEMENT IN THE 100 DOCKET WHICH IMPACT THE CURRENT RATE CASE APPLICATION.**

A. In the 100 Docket, the Commission approved the creation of ONE Gas from its former parent ONEOK. The transaction became effective in January, 2014. The relevant conditions identified in the Stipulation and Agreement in the 100 Docket, subsequently approved by the Commission, which impact the present application are as follows:

1. KGS is precluded from implementing base rate changes prior to January 1, 2017. KGS has adhered to this requirement and the proposed rates resulting from this application are requested to be effective as of January 1, 2017.

2. Elimination of regulatory asset associated with costs incurred in Docket No. 97-KGSG-486-MER.

As required in the Stipulation, these costs have been removed from the books of ONE Gas and are not included in this request.

3. KGS shall provide one-time rebates of $3,423,000 each April in the years, 2013 – 2015. The rebate shall take the form of a bill credit of $5.34.

Each of these required refunds have been made. Because these refunds are non-recurring, they have been eliminated from test year operations in Adjustment IS-14 as sponsored by KGS witness Ms. Lorna Eaton.

4. In conjunction with the refunds described above, KGS Pension Tracker 1 balances were reduced by $3,000,000.

The pension/OPEB costs deferred pursuant to Pension Tracker 1 are contained in Adjustment IS-26, sponsored by KGS witness Ms. Lorna Eaton.

5. The capital structure proposed in the next base rate case of ONE Gas shall be ONE Gas's actual capital structure; however, the equity component is not to exceed 55%.

KGS has adhered to this requirement by adjusting the actual capital structure in this filing to reflect a fifty-five percent equity component of ONE Gas's capital structure. This adjustment is shown in Section 7 of the minimum filing requirements.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPLICATION OF MODIFYING THE CAPITAL STRUCTURE TO REFLECT A 55% EQUITY RATIO?**

A. This adjustment from the actual equity ratio of ONE Gas to 55 percent equates to a $6.3 million reduction in the revenue requirement. In other words, had the request been calculated on the actual equity level of ONE Gas, with everything else remaining unchanged, the overall request would be $6.3 million higher.

**Q. SINCE THE REQUESTED 10.0% RETURN ON EQUITY IS PREMISED UPON THE EQUITY RATIO LIMITATION SET IN THE 100 DOCKET, WHAT WOULD BE THE EQUIVALENT ROE BASED UPON THE ACTUAL EQUITY LEVEL OF ONE GAS?**

A. The equity ratio of ONE Gas is actually 60.5%. To put the impact of the reduction in the equity ratio from actual to 55% in perspective, note that a 10% ROE with a 55% equity ratio is equivalent to a 9.3% ROE with a 60.5% equity ratio.

**V. COMPLIANCE WITH SCHEDULES REQUIRED BY K.A.R. 82-1-231.**

**Q. WHAT IS THE TEST YEAR FOR THIS FILING?**

A. The test year is the twelve-month period ending December 31, 2015. Adjustments have been proposed for known and measurable changes to test year and to normalize operating results.

**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 ("USOA") and Generally Accepted Accounting Principles (GAAP).

**Q. WHICH SCHEDULES REQUIRED BY K.A.R. 82-1-231 ARE YOU SPONSORING IN THIS CASE?**

A. I am sponsoring all of the schedules other than the schedules contained in Section 7, Schedules 12A and 12B in Section 12, and the Schedules in Section 18. The schedules included in Section 7 are sponsored by witness Mr. Mark Smith. Schedules 12 A and B, are sponsored by witness Ms. Crystal Turner and the schedules in Section 18 are sponsored by Mr. Justin Clements.

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 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 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 4.9%.

**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 $902,967,733; Pro Forma Revenues on line 6 is

$287,931,412; less Pro Forma Total Expenses on Line 7 of $243,624,679 results in Pro Forma Operating Income at present rates of $44,306,733, 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 4.9068% as shown on line 9. Line 11, the Operating Income Requirement of $65,734,245, is compared to the Operating Income at present rates to calculate the required Additional Operating Income of $21,427,512 as shown on Line 12. The Associated Income Tax on Line 13 is $14,019,158. The required overall revenue increase is $35,446,670 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 $1,702,040,331; Pro Forma Adjustments reflect an increase of $68,458,332; the Pro Forma Adjusted Total is $1,770,498,663. Corporate allocated plant is included to identify the portion of ONE Gas 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, 2012, 2013, 2014, and 2015.

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 ONE Gas' accumulated depreciation allocated to KGS. The Accumulated Provision of Depreciation and Amortization Amount Per Books on Line 9 is $591,732,290; Pro Forma Adjustment is an increase of $12,406,783; and Pro Forma Adjusted Total is $604,139,074. 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 DND-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 8.**

A. Section 8, Schedule 8-A compares the Balance Sheet of KGS for the periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-B presents an Income Statement by FERC functional account and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-C presents the Retained Earnings by FERC account and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-D presents detailed Operating Revenues by FERC account and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-E presents detailed Operating Expenses by FERC account and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-F presents Usage, Revenues and Customer Data and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

Schedule 8-G presents KGS Operations Payroll Data by FERC account and compares the twelve-month periods ended December 31, 2012, 2013, 2014 and 2015.

**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 $533,449,344; Pro Forma Adjustments to revenue are a decrease of $245,517,932 resulting in Pro Forma Revenue of $287,931,412. Total expenses on line 18, Amount Per Books, are $490,167,832; Pro Forma Adjustments to expenses are a decrease of $246,543,154 resulting in Pro Forma Expenses of $243,624,679. Operating income on line 19, Amount Per Books, is $43,281,512; Pro

Forma Adjustments to Operating Income is an increase of $1,025,222 resulting in Pro Forma Operating Income of $44,306,733.

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 ONE Gas' depreciation of plant in service allocated to KGS. Total Depreciation and Amortization Expense on line 15, Amount Per Books, is $44,264,296; Pro Forma Adjustments are an increase of $4,745,635 resulting in Pro Forma Adjusted Total of $49,009,931.

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. Ronald E. White, who is testifying on behalf of the Company, sponsors the technical update to 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 $42,479,230; Pro Forma Adjustments increase taxes $2,438,277 resulting in Pro Forma Adjusted Total of $44,917,507.

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 taxable income.

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 12B address corporate allocation and are sponsored by company witness Crystal Turner. 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 the ONE Gas 2015 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 $5.18.

**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.

## VI. EXPLANATION OF ADJUSTMENTS

**Q. MR. DITTEMORE, YOU SPONSOR FOUR DIFFERENT ADJUSTMENTS TO THE ACCUMULATED DEFERRED INCOME TAX ("ADIT") LIABILITY. PLEASE BEGIN BY DEFINING ADIT.**

A. ADIT records the cumulative differences between Income Tax Expense recorded pursuant to GAAP for financial reporting purposes and actual income taxes paid to taxing authorities. While there are a number of contributing factors impacting the ADIT balance, typically the ADIT is a net liability rather than an asset. Significant activity in this account is driven by accelerated tax depreciation contrasted with more conservative book depreciation. These differences in depreciation rates create a difference between 'book income' and 'taxable income' which, when applied to the effective tax rate, results in an entry to the ADIT account, usually creating a liability. The difference between book and tax depreciation rates turns around over time (i.e., tax depreciation is initially higher than book but then this trend reverses itself as the asset becomes fully depreciated for both book and tax purposes. and thus is an example of what is termed a temporary difference. As an asset becomes fully depreciated for tax purposes, the book depreciation continues and the difference between the two cumulative depreciation balances is reduced until it is eventually eliminated, resulting in the elimination of the ADIT balance for that particular asset. Temporary differences affect the timing of the payment of income taxes contrasted with the recognition of Income Tax Expense per GAAP. Over time, however, these temporary differences are eliminated. During the period of time when the annual tax depreciation is greater than the annual book depreciation of an asset, the taxable income will be lower and thus taxes paid will be lower than the related book income tax expense, creating a deferred tax liability. When the turn-around occurs, the book depreciation will be higher than the tax depreciation, thus producing lower book income, resulting in lower income tax expense compared with taxes paid, which reduces the deferred tax liability.

**Q. PLEASE EXPLAIN HOW THE ADIT ACCOUNT IS TREATED FOR RATEMAKING PURPOSES?**

A. The typical regulatory treatment of the net ADIT balance is to reflect it as an offset to Rate Base. This treatment is appropriate because the net ADIT liability represents a source of financing to the utility. The application of the net ADIT balance as a Rate Base offset is generally not a source of contention in rate proceedings. As shown in Schedule 6-D of the Application, KGS has recorded a net ADIT Liability of ($304,289,937) as of 12/31/15. The pro forma balance of ($272,849,807) is treated as an offset to Rate Base, consistent with traditional regulatory treatment.

**Q. PLEASE NOW TURN TO ADJUSTMENT WC 3 AND EXPLAIN WHY THIS ADJUSTMENT IS NECESSARY.**

A. Adjustment WC 3 reduces the ADIT Liability (thus increasing Rate Base) $51,778,325. This adjustment is necessary to eliminate the impact of pension and Other Post Employment Benefit (OPEB) funding on KGS ADIT balance and is consistent with the Stipulation and Agreement in Docket No. 10-KGSG-130-ACT ("130 Docket").

**Q. PLEASE BEGIN BY PROVIDING AN OVERVIEW OF THE 130 DOCKET.**

A. The 130 Docket dealt with fairly complex accounting/funding issues related to utility pension and OPEB costs. Essentially, OPEB costs are those costs accrued to provide retiree benefits such as medical and dental coverage. The Order permitted KGS to defer, as a regulatory asset or liability, differences between current year GAAP Pension/OPEB expense and those corresponding expense levels included in each utility's revenue requirement determined in its most recent rate case[1]. The other major element of the approved Order was that the utilities were required to make contributions to an external trust fund. KGS has greatly exceeded the funding requirements set forth in the Order.

**Q. WHAT IS THE IMPLICATION OF THIS OVER-FUNDING ON THE BALANCE OF ADIT?**

A. The cumulative pension/OPEB funding in excess of that recorded as a book expense has resulted in an increase in the ADIT balance of $51,778,325. The reason is that the funding is deductible for tax purposes, while the lower book expense is used within the calculation of the deferred tax expense. This difference between the funding level and the book expense creates a deferred tax liability.

**Q. DO CUSTOMERS BENEFIT FROM FUNDING IN EXCESS OF THAT REQUIRED IN THE 130 DOCKET?**

A. Yes. Mr. Mark Smith addresses this issue within his testimony.

**Q. DOES THIS EXCESS FUNDING RESULT IN AN ASSET THAT IS INCLUDED IN RATE BASE?**

A. No. The Order in the 130 Docket provided there would be no rate base recognition for any excess contributions beyond the pension/OPEB funding requirements. KGS has not

[1] The amortization of this balance is presented as adjustment IS 26.

included a rate base additive for its level of funding in this application. The pertinent language from the KCC's order in the 130 Docket is:

> B. KGS's application with respect to Tracker 2, to establish a regulatory asset/liability account to accumulate the difference between the current year pension/OPEB contribution to its established trusts and current year GAAP pension/OPEB costs, not as a component of rate base as set forth by Staff's recommendation is hereby approved.

As indicated by Mr. Smith's testimony we are not requesting rate base recognition in this filing,

**Q. HOW DOES THIS LANGUAGE SUPPORT YOUR ADJUSTMENT TO ELIMINATE THE ADIT LIABILITY ASSOCIATED WITH THIS EXCESS FUNDING?**

A. Absent this adjustment, KGS would be penalized for its excess funding through a reduction in rate base. The excess funding has benefited customers and KGS should not be faced with a reduction to its rate base, through its ADIT account, as a direct result of its level of funding. The language in the Order indicates there should be no rate base recognition of the excess funding as an additive to rate base. To be consistent with the intent of the Order, rate base should not be reduced for the tax liability generated as a result of the funding.

**Q. PLEASE IDENTIFY ADJUSTMENT WC 4 TO RATE BASE?**

A. Adjustment WC 4 reduces rate base $25,612,745 by reducing the Net Operating Loss (NOL) balance within the deferred tax liability associated with excess pension and OPEB funding as discussed in Adjustment WC 3. The justification for Adjustment WC 4 is identical to that of Adjustment WC 3. Identical adjustments were proposed and accepted in the last KGS base rate case Docket No. 12-KGSG-835-RTS ("835 Docket").

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT WC 5.**

A. Adjustment WC 5 reduces the ADIT Liability $5,274,550 and is necessary to remove the impacts associated with KGS's Cost of Gas Rider. At any point in time, customers have either under or over funded the cost of gas, transportation and storage costs KGS incurs to deliver natural gas to consumers. KGS monitors the status of the over/under account and reports monthly to the KCC Staff. This difference is either taxable or tax deductible depending upon the balance. Since there is an equal likelihood of a positive or negative balance in this account going forward, I recommend that the impact of the balance at the end of the test period be removed for purposes of establishing the appropriate ADIT Liability balance used as a rate base deduction. There is no income statement impact from this issue, thus an adjustment to pro forma revenues or expenses is unnecessary.

**Q. PLEASE EXPLAIN ADJUSTMENT WC 6**

A. Adjustment WC 6 reduces rate base $7,916,831 and is necessary to attribute a portion of ADIT Liability to KGS associated with the allocation of corporate plant as described by Company witness Crystal Turner in Adjustment PLT 3. As discussed in her testimony, these assets are used in the provision of utility service and because they are not recorded on the books of KGS, they must be allocated. Similarly, the ADIT liability associated with these assets is not recorded on the books of KGS and thus, an adjustment is necessary to properly allocate this customer provided capital to KGS.

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 34.**

A. Adjustment IS 34 increases pro forma operating expenses $326,216. This adjustment incorporates the estimated costs of this rate case plus the unamortized rate case costs from the 835 Docket, amortized over a three-year period. The adjustment is netted against test year rate case amortization costs, resulting in a net increase in operating expenses. The actual costs of the rate proceeding shall be incorporated into the final adjustment at the conclusion of this docket.

**Q. PLEASE CONTINUE WITH AN EXPLANATION OF ADJUSTMENT IS 35.**

A. Adjustment IS 35 calculates the pro forma income tax expense $3,767,139. This adjustment is based upon pro forma operating income which incorporates all pro forma adjustments contained within this filing, and is necessary to properly match pro-forma income tax expense with pro forma taxable income.

## VII. COST OF SERVICE ADJUSTMENT MECHANISM

**Q. WHY IS THE COMPANY PROPOSING AN ANNUAL COST OF SERVICE ADJUSTMENT ("COSA") MECHANISM AT THIS TIME?**

A. As the Commission knows, ONE Gas is a pure-play natural gas utility, focused on providing safe, reliable, natural gas service at a reasonable cost. In order to provide high quality service that our customers and the Commission expect, it is imperative that the Company has a reasonable opportunity to earn its Commission authorized return on equity. The proposed COSA mechanism will provide a reasonable opportunity to earn our authorized return, which is not currently available in the existing regulatory framework.

As is discuss later in my testimony, the proposed mechanism also offers benefits to KGS customers.

**Q. HAS KGS HAD A HISTORY OF FREQUENT BASE RATE FILINGS?**

A. No. Since being acquired by ONEOK in 1997, Kansas Gas Service has filed three rate cases. This filing represents its fourth such filing in 20 years. The last base rate case application occurred four years ago, in May, 2012.

**Q IN YOUR OPINION, DOES KGS HAVE A REALISTIC OPPORTUNITY TO EARN ITS AUTHORIZED RETURN ON EQUITY?**

A. No. One of the objectives of utility regulation is that the rates approved by regulatory agencies should provide the utility with the opportunity (but not a guarantee), to earn its authorized return on equity. “The (utility) rates should be high enough to provide the utility with a reasonable opportunity to recover the total costs of providing service and to sustain its financial integrity."[2]

Unlike electric utilities with a history of growing load, gas utilities face continual declines in residential consumption, delayed recovery of depreciation and return on a good portion of its capital investments as well as recovery of increasing Operating and Maintenance expenses. Currently, the only opportunity to recover these increasing costs (other than GSRS qualifying investment) is through a full base rate case, which is expensive and time-consuming to both prepare and process, and as discussed below, results in considerable regulatory lag.

**Q. HAS KGS EARNED ITS AUTHORIZED RETURN ON EQUITY SINCE ITS LAST RATE PROCEEDING?**

A. No. Under any measure KGS's actual return on equity earned each year, has fallen far short of the ROEs proposed by any of the parties in its last rate proceeding.

**Q. WHAT CAUSES THE ACTUAL RETURN ON EQUITY TO BE BELOW THE ALLOWED RETURN ON EQUITY APPROVED IN A RATE PROCEEDING?**

A. In my opinion, the causes can be summarized as follows:

1. Increases in cost compared to the allowed cost recovery in a rate review,
2. Increase in net plant compared to the allowed net plant in a rate review, including approved GSRS plant,
3. Decreases in consumption by residential customers, and
4. The outcome of the company's most recent base rate case.

**Q. WILL THE COMPANY BE ABLE TO REPLICATE ITS HISTORIC PATTERN OF INFREQUENT RATE FILINGS IN THE FUTURE?**

A. No. The company cannot sustain the level of under-earnings experienced in the past three years over an extended time period in the future.

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[2] Accounting for Public Utilities §3.01(3), Release November, 2010.

**Q. EARLIER YOU MENTIONED THE PROPOSED MECHANISM WOULD PROVIDE BENEFITS TO KGS CUSTOMERS. PLEASE IDENTIFY SUCH BENEFITS.**

A. The customer benefits resulting from implementation of an annual review mechanism include:

1. Increased transparency of KGS's operations due to the annual review process, translating to less controversial ratemaking procedures, balancing the needs of our customers, the Commission, its Staff as well as the Company;
2. Rate Increases, while likely more frequent, will be smaller and reduce the possibility of rate shock;
3. Reduction in the number of applicable riders;
4. All operating efficiencies obtained by KGS are promptly flowed back to customers through the annual mechanism; and
5. A significant reduction in rate case costs which otherwise would be incurred in fully litigated rate cases.

**Q. EXPLAIN HOW CUSTOMERS WILL BENEFIT FROM INCREASED TRANSPARENCY OF KGS's OPERATIONS UNDER THE PROPOSED COSA MECHANISM.**

A. The proposed mechanism will require an annual filing by KGS that will be subject to review by the KCC Staff, CURB and other interested parties. The annual review by regulators will allow for greater familiarity with and knowledge of KGS operations.

**Q. PLEASE EXPLAIN HOW THE INCREASED LEVEL OF TRANSPARENCY WILL TRANSLATE TO LESS CONTROVERSIAL AND PROTRACTED RATEMAKING PROCEDURES.**

A. Once the process of annual filings occurs, we would expect Staff and CURB to greatly increase their familiarity and comfort level with both the filing itself and the annual process. For example, with each GSRS filing that was made, Staff and KGS became more comfortable with the process and there has been little controversy between the parties since inception of the mechanism. I believe the annual review mechanism would work in a similar fashion.

**Q. WHY DO YOU BELIEVE OVER TIME THE FILINGS WOULD BECOME LESS CONTROVERSIAL?**

A. It's been my experience that the most consistently controversial items within natural gas utility rate filings are the following:

a. Return on Equity

b. Depreciation Rates

c. Incentive Compensation

d. Class Cost of Service

e. Rate Design

As discussed below, these items will be incorporated into the annual mechanism consistent with the Commission's findings in this proceeding, thus eliminating controversy surrounding these traditional ratemaking issues. Since the artificial cap on equity was limited to the first general rate case filed after the separation with ONEOK under the settlement approved by the Commission in the 100 Docket, the 55% equity cap should not apply to the COSA filings. Instead, KGS should be allowed to use its actual equity ratio, not to exceed 60%, in those COSA filings. The cost of debt and cost of equity determined in this rate case would still apply to the COSA filings and would be applied to ONE Gas' actual capital structure, subject to the limitation above.

**Q. HOW WILL THE ANNUAL REVIEW REDUCE THE POTENTIAL FOR CUSTOMER RATE SHOCK?**

A. The annual review mechanism may result in more frequent rate increases than is the case under the traditional rate case methodology; however, such annual reviews will produce smaller rate increases and will provide additional opportunities for decreases than is the case with rate filings that are years apart. As a direct consequence of the significant time between rate filings in the traditional model, the utility bears the compounding impact of multi-year cost increases, until such time as it is able or permitted to submit a comprehensive base rate application. This result generally translates to much larger, albeit less frequent rate increases. Further, there is an important consumer protection feature of our proposal which provides added assurance that significant increases will not occur. I will discuss that feature later in my testimony in a discussion of the details of the mechanism.

**Q. HOW WOULD THE ANNUAL COSA MECHANISM REDUCE THE NUMBER OF KGS RIDERS?**

A. If the Commission authorizes this annual review mechanism, KGS will no longer file for the Gas System Reliability Surcharge (GSRS) and would eliminate the Ad Valorem Tax Surcharge (AVTS).

**Q. IF THE COMMISSION DESIRES THE RETENTION OF THE GSRS SURCHARGE, DOES KGS OBJECT TO RETAINING THAT MECHANISM?**

A. No. If the Commission desires to retain focus on KGS's GSRS investment, we do not have any objection to retaining that mechanism and such investments could easily be incorporated in the annual COSA mechanism as is done today with a base rate increase.

**Q. EARLIER YOU INDICATED THAT THE MECHANISM WOULD HAVE CUSTOMER PROTECTION FEATURES THAT BALANCE THE INTERESTS OF CUSTOMERS AND SHAREHOLDERS. PLEASE IDENTIFY WHAT SPECIFIC FEATURES YOU ARE REFERENCING.**

A. The COSA mechanism proposed by KGS is somewhat similar to the annual review mechanism that was proposed by Atmos in Docket No. 16-ATMG-079-RTS (079

Docket), in that both propose to incorporate an annual review mechanism[3]. However, the KGS COSA mechanism differs from that proposed by Atmos in that it caps the eligible annual Operating and Maintenance (O&M) cost increases year over year at four percent. In other words, for purposes of calculating the O&M expense portion of the annual revenue requirement, the increase is limited to a four percent annual increase compared with the O&M expense levels adopted by the Commission in this proceeding. The proposed capping of O&M increases eligible for recovery in this annual mechanism, renders moot the argument some may raise that an annual review mechanism reduces or eliminates the incentive a utility has to control its costs.

In addition to the O&M expense cap, another important feature of the mechanism is the provision that KGS will be required to submit pre-filed testimony accompanying the annual review mechanism. The testimony will provide an overview of the filing as well as a description of all pro forma adjustments. An additional aspect of the proposed mechanism is that in the event the Commission is unable to render a decision in the 135 day process envisioned in the tariff, the rates implemented on September 1 will be considered "interim rates" subject to refund. Therefore, if some unique regulatory issues arise that the parties are unable to resolve, requiring modification to the streamlined process, the refund provision provides customers with protection pending ultimate resolution of the litigated issue(s). I do not envision protracted litigation surrounding the COSA, given that the more controversial rate case components will be effectively resolved based up on determinations made as part of this general rate case docket.

Another important consumer protection feature of the annual review mechanism is that it is designed to be a three-year pilot program. At the end of the initial three-year program, the Commission will be in a position to evaluate the public policy implications of the pilot program. Thus, the Commission is not burdened in this docket with the task

[3] The Commission has also previously approved formula rates in Docket No. 13-MKEE-452-MIS (2013)

of addressing a proposed change in the method of establishing base rates, which would have an impact for an indefinite period of time. Instead, after review of the trial period, the Commission could reauthorize the annual filings for an additional period of time based on the success of the pilot program and the level of confidence Staff, CURB and KGS have in it to provide just and reasonable rates.

**Q. CONTINUE WITH AN EXPLANATION OF HOW OPERATING EFFICIENCIES ACHIEVED BY KGS WILL BE FLOWED BACK TO CUSTOMERS.**

A. Operating efficiencies achieved by KGS would be captured for the benefit of customers in the form of reduced operating expenses. Since the mechanism incorporates an annual review, these efficiency gains would be reflected in the operational results that factor into whether a change in rates is warranted.

**Q. HOW WILL THE ANNUAL MECHANISM REDUCE REGULATORY EXPENSE?**

A. Absent an unusual change in operating environment, the annual mechanism should reduce the need for traditional - fully litigated base rate proceedings, which are costly to produce and process for all parties. Instead, for the purposes of the COSA, the decisions regarding most of the significant and controversial rate case issues will be based upon the Commission's determinations of those issues in this proceeding. The ability to merely incorporate the results of this case into the annual filings, translates to avoided rate case costs.

**Q. ARE YOU FAMILIAR WITH STAFF TESTIMONY IN OPPOSITION TO THE ANNUAL RATE MECHANISM (ARM) PROPOSED BY ATMOS IN THE 079 DOCKET?**

A. Yes, I am.

**Q. CAN YOU SUMMARIZE THE CRITICISM CONTAINED IN STAFF TESTIMONY CONCERNING THE ARM.**

A. Staff testimony levied the following concerns with the ARM proposal[4]:

1. The mechanism cut the statutory review time in half from 240 days to 120 days.
2. The burden of proof involving the ARM was shifted to Staff and Atmos was not required to submit testimony.
3. The ARM tariff was not presented as a pilot or experimental program.
4. The ARM tariff did not appear to contemplate a situation where disagreement could arise between Atmos and Staff or another intervenor.
5. The ARM tariff addressed a problem largely of Atmos' own making.
6. The reduction of regulatory lag benefited only shareholders, and not ratepayers.

**Q. PLEASE DISCUSS EACH OF THESE POINTS INCLUDING HOW THE COSA MECHANISM ADDRESSES THESE ISSUES OR WHY THE POINTS ARE NOT RELEVANT.**

A. Under the KGS COSA mechanism, rates would become effective on the one-hundred thirty fifth day after filing, subject to refund, if the Commission has not issued an order regarding the application. This proposed COSA permits an additional fifteen days of review beyond that contemplated in the Atmos ARM. However, despite the reduced time frame for review from a standard fully litigated rate proceeding, the full time frame allotted for a base rate proceeding should not be necessary under the COSA mechanism. As discussed earlier, the most controversial issues usually debated in traditional rate cases will be incorporated into the COSA filing consistent with findings in this present case; thus, reducing the need for the level of review incurred in base rate proceedings. Further, the annual review will enhance Staff and CURB's familiarity with KGS's operations and financial records which will allow for a shorter more focused review.

[4] Testimony of Justin Grady, 079 Docket, pgs 23-24

KGS recognizes it has the burden of proof to demonstrate that its request produces just and reasonable rates and has specifically included such a reference within the tariff. Moreover, as discussed above, all stakeholders benefit from the COSA mechanism.

**Q. IS THE KGS COSA PROPOSAL PRESENTED AS A PILOT PROGRAM?**

A. Yes. Staff's criticism that the Atmos ARM was not presented as a pilot program is not relevant in this situation as KGS has clearly identified its proposal as a pilot program subject to review at the end of its three-year implementation period in 2019. At that time, the Commission will have an opportunity to evaluate the mechanism and its results on all stakeholders.

**Q. WHAT PROVISIONS ARE ASSUMED IF PARTIES TO THE APPLICATION DO NOT REACH AGREEMENT?**

A. First, I wish to reiterate that I don't believe that scenario is likely. However, in the event it does occur, KGS recommends presenting oral arguments before the Commission by each intervenor's technical staff. This process would provide the Commission with the opportunity to hear from each party's technical experts in a straightforward and simple process where the information could be quickly provided by each party, permitting the Commission the necessary background information to render a decision.

**Q. CONTINUE WITH A DISCUSSION OF STAFF'S CONCERN THAT THE ISSUES GIVING RISE TO ATMOS ARM PROPOSAL WAS LARGELY OF ATMOS' MAKING.**

A. I disagree with the assertion that the ARM proposal was largely due to Atmos' own making.

**Q. HOW DO YOU RESPOND TO STAFF'S POSITION THAT THE REDUCTION OF REGULATORY LAG BENEFITS SHAREHOLDERS, BUT NOT CUSTOMERS?**

A. Utilities should be given a reasonable opportunity to earn the rate of return authorized by the Commission. The reduction of regulatory lag is consistent with this objective. The proposed COSA mechanism and the protections built into it are a benefit to customers, as I further elaborate below.

**Q. WILL REGULATORY LAG BE ELIMINATED UNDER THE KGS COSA PROPOSAL?**

A. No. For example, capital investment that becomes used and useful in January of a given year will, under the proposed mechanism, not be reflected in customers' rates until September of the following year. KGS will continue to have the same incentives it has today to control costs.

**Q. IF THE COSA MECHANISM IS ADOPTED, WHY WOULD KGS RETAIN THE INCENTIVE TO CONTROL COSTS?**

A. Public natural gas utilities have a responsibility to all stakeholders to first ensure they provide safe and reliable natural gas service in compliance with all laws and regulations. These companies also have a responsibility to their shareholders to maximize shareholder return. The COSA mechanism does not protect utility shareholders from bearing the financial burden of increased operating costs. There is no deferral mechanism within the COSA to shift increasing O&M costs to future periods and further, the proposed mechanism caps increases in O&M costs at four percent, year-over-year. Therefore, utility managers retain the incentive to control costs in order to maximize earnings with or without the COSA mechanism.

**Q. PROVIDE AN OVERVIEW OF THE PRIMARY ELEMENTS OF THE MECHANISM.**

A. Each year KGS will prepare a revenue requirement calculation setting forth the actual test year data, adjusted for known and measurable changes and to annualize the data for known income statement impacts. The application, will be filed by April 15th and shall include pre-filed testimony supporting the calculation of the revenue requirement as well as an explanation of each test period adjustment. The adjustments to test period operations are designed to reflect an annualized level of O&M expense relying upon the same ratemaking methodologies used by the Commission today to define revenue requirements in fully litigated base rate proceedings. Likewise, adjustments to rate base will be those typically made in existing base rate proceedings. Any resulting changes to the existing approved revenue requirement shall be allocated to customer classes in the same proportion as the allocation of revenue requirement by class approved in this docket. The revised rates would apply to all customers other than special contract customers, who are served at existing competitive rates.

The information provided in the application would include test year data and otherwise conform to the information provided in current base rate case filings. However, historic data would not be included within the application, as the Commission will already be in possession of this information within this base rate filing as well as subsequent COSA filings. The COSA tariff requires that KGS submit its work papers to the KCC Staff and CURB simultaneously with the Application so that complete information is available for review at the time of the filing.

Staff, CURB and any other intervenor would have 60 days from the date the application and work papers are submitted to identify issues. The tariff requires that all parties work in good faith to resolve any disputes. Within 75 days of the filing Staff and any other interested interveners will submit its report and recommendation to the Commission. KGS will submit its response to the Staff report and other reports, if any, within ten days after those reports are submitted. At this point, the parties would submit a joint recommendation to the Commission on whether a brief technical hearing is necessary or whether the Commission could reach a decision based upon the written positions of the parties. The objective is for the Commission to issue an order on or before September 1st. If the Commission were unable to reach a decision by that time, the proposed rates would be placed in effect, subject to refund for any subsequent determination by the Commission that modifies the interim rates.

As mentioned earlier, the COSA mechanism is drafted as a pilot program that would be in effect for test periods 2017 – 2019, with corresponding rates in effect under the program for a three-year period beginning September 2018. Absent reauthorization as noted above, or a rate case or show cause proceeding being filed, it is expected that a new base rate case would be submitted in late 2020 or early 2021, at which time all parties would be able to address whether the pilot program shall be continued on a permanent basis, modified, or discontinued.

**Q. HOW WILL THE COSA MECHANISM INCORPORATE A RETURN ON EQUITY INTO THE REVENUE REQUIREMENT CALCULATION?**

A. The Authorized Return on Equity (AROE) adopted in this proceeding will be the AROE on which the COSA calculations are based. The Earned Return on Equity (EROE) shall be determined based upon actual test year operating results adjusted for known and measurable changes. The resulting EROE is then compared with the AROE to determine the revenue deficiency or excess.

**Q. ARE YOU PROPOSING A LIMITATION ON THE ANNUAL LEVEL OF INCREASE IN OPERATING AND MAINTENANCE COSTS?**

A. Yes. The limitation or cap on O&M costs, which excludes Depreciation Expense and taxes, is set at an annual increase not to exceed four percent applied per annum from December 31, 2015. If the Commission approves a revenue requirement in this proceeding which includes total O&M costs of $245 Million annually, then the cap limitation that would apply to the first COSA calculation for rates to be effective in September, 2018, would be ($150M*1.04*1.04) $164.4M. Thus, KGS is assuming the risk that its costs may exceed the four percent threshold per year and thus not fully recover its costs.

**Q. IF THE COSA CALCULATION DETERMINES THAT A RATE CHANGE IS REQUIRED, HOW WILL SUCH INCREASE/DECREASE BE ALLOCATED TO CUSTOMERS?**

A. The Commission's determination made in this case, regarding the appropriate assignment of the revenue requirement by rate class shall be the basis to assign any revenue deficiencies/excess arising from the COSA. Therefore, there should be no new controversy associated with this issue. The resulting rate design shall be based upon the relative ratio of customer charge and volumetric charges that are adopted within this proceeding.

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

A. Yes.

**VERIFICATION**

STATE OF KANSAS )
) ss.
COUNTY OF JOHNSON )

David Dittemore, being duly sworn upon his oath, deposes and states that he is Director of Rates and Regulatory Affairs for Kansas Gas Service, a Division of ONE Gas, 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.

David Dittemore
NAME

Subscribed and sworn to before me this 27 day of April 2016.

STATE OF KANSAS NOTARY PUBLIC
JILL TENNANT
My Appointment Expires
June 21, 2018

Jill Tennant
NOTARY PUBLIC

My appointment Expires:

June 21, 2018

## Cost of Service Adjustment (COSA) Plan

1. **Applicability**

 1.01 The rider is applicable to all sales and transportation rate schedules except where not permitted under a separately negotiated customer contract.

 1.02 The rate adjustments implemented under this mechanism will reflect annual changes in the Company's cost to provide natural gas distribution service.

2. **Purpose**

 The purpose of this mechanism is to provide an annual earnings review in order to adjust rates to reflect the most recent historic costs necessary in the provision of natural gas utility service.

3. **Application**

 Each annual application submitted by Kansas Gas Service (Company or KGS) shall calculate the revenue requirement of the company consistent with standard ratemaking principles adopted by the Kansas Corporation Commission (KCC or Commission). No provision contained within this tariff will limit the Company's ability to file a general rate change application, or the Commission's authority to file a show-cause proceeding. Kansas Gas Service shall have the burden of proof to demonstrate the reasonableness of its application and resulting rates.

 The Company shall file an Application for a Commission determination pursuant to this COSA Rate Schedule for calendar years 2017, 2018 and 2019, with each filing to be submitted by the following April 15th. The Application shall include pre-filed testimony in support of the test period financial information as well as each pro-forma test period adjustment. During this three-year period, the COSA shall be considered a pilot program. Any subsequent Applications made pursuant to terms outlined in this tariff would require the approval of the KCC.

 3.01 The Company shall, on or before April 15, file an application with the KCC and provide copies to Staff of the KCC, and the Citizens Utility Ratepayer Board (CURB). Historic information prior to the test period need not be provided. Where applicable, the data provided below shall include the test period actual data, listing of individual adjustments to test period data by FERC account and the as-adjusted balance. The filing shall include information consistent with the requirements of sections of K.A.R. 82-1-231 listed below:

 Section 1: Application, letter of transmittal and authorization
 Section 2: General Public Notification
 Section 3: Summary of Rate Base, Operating Income and Rate of Return,
 Section 4: Plant in Service
 Section 5: Accumulated Provision for Depreciation and Amortization
 Section 6: Working Capital
 Section 7: Capital and Cost of Money
 Section 9: Test Period and pro forma Income Statements

**Cost of Service Adjustment (COSA) Plan**

Section 10: Depreciation and Amortization
Section 11: Taxes
Section 12: Allocation Ratios
Section 18: Allocation of revenue requirement to customer classes, development of proposed rate design, proof of revenues and proposed tariffs

3.02 The filing shall be accompanied by work papers provided to the KCC Staff and CURB supporting each of the pro-forma adjustments.

3.03 The pro-forma adjusted operating expenses, excluding depreciation expense and all taxes, shall not exceed 104% of the previous year's as adjusted operating and maintenance (O&M) expenses, excluding depreciation expense and all taxes. The initial 4% O&M limitation shall be calculated on a per annum basis as of December 31, 2015. This provision shall represent a limit by which operating expenses may not increase for purposes of calculating the Earned Return on Equity (EROE) as discussed below. The KCC's authorized operating expenses within the KGS base rate proceeding shall be used as a baseline upon which subsequent operating expense limits would be determined. Any costs incurred as a result of new governmental mandates subsequent to December 31, 2015, shall not be included for purposes of calculating the O&M limitation.

3.04 An expedited processing schedule shall be established to provide notice and due process to all interested parties, including customers. Any calculations disputed by the parties shall be identified to the Company prior to June 15. The parties shall work in good faith to resolve all disputes prior to June 15. The KCC Staff report and recommendation will be provided to the KCC by June 30 and the Company's response to Staff's report and recommendation shall be filed with the Commission within seven business days following the filing of Staff's report and recommendation.

3.05 Unless disputed by the parties, any rate schedules incorporating the COSA Plan by reference will become effective by Order of the Commission with the first billing cycle in September. If the parties have not resolved the disputed issues, the issues will be set for hearing before the Commission. If the Commission has not issued an order by September 1 following the date of an application, then the rate schedules may be placed into effect and collected on an interim basis, subject to refund.

3.06 The revenue requirement increase or decrease as identified within Sections 3 and 18 listed above shall be determined pursuant to the return on equity parameters identified in Section 4 below.

| | |
|---|---|
| Issued: __________<br>Effective: __________<br>By: __________<br>David N. Dittemore, Director – Regulatory Affairs | |

**Cost of Service Adjustment (COSA) Plan**

4. **Application of the COSA Plan**

4.01 The Company's Allowed Return on Equity (AROE) is that set pursuant to the order of the Commission contained within the 2016 KGS base rate filing. This AROE shall be the effective AROE until modified by Commission order. Such modification shall be applied prospectively.

4.02 The Earned Return on Equity (EROE) shall be recalculated annually under this Plan, for use in determining any rate change adjustments that become effective during subsequent years. Except as otherwise provided in other sections of this tariff, the calculation shall be performed using the same methodology used to calculate the EROE pursuant to KGS' 2016 base rate filing.

4.03 The Company will submit revised rate schedules to the Commission each time the rates are adjusted pursuant to this Rate Schedule.

5. **Term**

This Rate Schedule shall become effective upon issuance of a Commission order and terminate at the end of the pilot program period approved by the Commission, or as the result of a final order being issued in a general rate case or show cause proceeding.

6. **Force Majeure Provision**

If any cause beyond the reasonable control of the Company, including, but not limited to, natural disaster, orders or acts of civil or military authority, terrorist attacks, or government mandates, which results in a deficiency in the revenues which are not readily capable of being addressed in a timely manner under this Rate Schedule, the Company may file for rate relief.

7. **Application of COSA Calculation Procedure**

7.01 For each 12-month period ending December 31, the Company shall file an Application for a Commission determination pursuant to this COSA Rate Schedule to determine whether the Company's jurisdictional non-fuel revenues should be increased, decreased, or left unchanged. If it is determined that the jurisdictional non-fuel revenues should be increased or decreased, the Company's rate schedules will be adjusted in the manner set forth in this Rate Schedule. Any revenue modifications will be allocated to the Company's customers based upon the customer class cost of service allocation approved by the KCC in the KGS 2016 base rate case filing. The revised rate schedules will become effective by Order of the Commission for the September cycle one bills and will remain in effect until changed under the provisions set forth in this Rate Schedule and by order of the Commission.

7.02 Rates applicable to each class shall be split between Customer Charge and Commodity Charge in the same proportion to total revenue as the underlying rates approved by the KCC in the most recent KGS base rate proceeding.

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| Issued: ____________________<br>Effective: ____________________<br><br>By: ____________________<br>David N. Dittemore, Director – Regulatory Affairs | |

**Cost of Service Adjustment (COSA) Plan**

8. **Annual COSA Plan Calculation**

8.01 The calendar year shall be the test year.

8.02 Rate Base and cost of service shall be computed in the same manner as approved by the Commission in KGS 2016 base rate case. This section does not prohibit the parties from requesting certain modifications to these rate change adjustments.

8.03 The Company's actual capitalization ratio as of the end of the test period shall be used to calculate the revenue requirement, except that the equity component shall not exceed 60%. The Company's weighted cost of debt at December 31 of test period shall be used to calculate the overall rate of return.

8.04 Actual year operating Revenues shall be modified consistent with the Commissions' findings in KGS' 2016 base rate case. The as adjusted Operating Revenues shall include, but not necessarily limited to test period weather normalization accruals and shall be determined based upon weather coefficients as determined in the KGS 2016 base rate case.

8.05 Actual test year operating Expenses shall also be modified consistent with the Commissions' findings in KGS 2016 base rate case based upon annualized December 31 year-end data for the following:

a. Depreciation expense calculated based upon December 31 balances multiplied by Commission authorized depreciation rates.

b. Labor costs based upon employees' compensation levels and employment levels as of December 31.

c. Actual test year expenses will be adjusted consistent with Commission findings on appropriate items to include/exclude in the revenue requirement pursuant to its order in the 2016 KGS base rate case.

d. The cost impacts of tax changes or governmental mandates shall be annualized.

e. Other adjustments as appropriate.

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| Issued: ____________________<br>Effective: ____________________<br><br>By: ____________________<br>David N. Dittemore, Director – Regulatory Affairs | |

**PUBLIC VERSION**

**BEFORE THE STATE CORPORATION COMMISSION**
**OF THE STATE OF KANSAS**

| | | |
|---|---|---|
| In the Matter of the Application of Freedom Pipeline, LLC, for Approval of Its Sales For Resale Customer Contracts. | ) ) ) | CON Docket No. 23-FRPG-461-RTS |

**<u>DIRECT TESTIMONY OF DAVID N. DITTEMORE</u>**
**<u>ON BEHALF OF FREEDOM PIPELINE, LLC</u>**

**Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS FOR THE RECORD.**

**A.** My name is David N. Dittemore. I am a self-employed consultant working in the utility regulatory sector. My business address is 609 Regent Park Drive, Mt. Juliet Tennessee.

**Q. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND PROFESSIONAL EXPERIENCE.**

**A.** I received a Bachelor of Science in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission ("KCC") in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. I was self-employed as a Utility Regulatory Consultant for approximately four years, including the representation of the KCC Staff in regulatory matters before the Commission. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters.

During this time, I also performed a consulting engagement for Kansas Gas Service ("KGS"), my subsequent employer. For eleven years, I served as Manager and, subsequently, Director of Regulatory Affairs for KGS. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. In July 2021, I began my consulting practice. Overall, I have thirty years of experience in public utility regulation. I have presented testimony as an expert witness on many occasions, including before the KCC. Attached as Exhibit DND-1 is a detailed overview of my background.

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

**A.** The purpose of my testimony is to demonstrate that the current rates of Freedom Pipeline LLC (“Freedom”) are reasonable and should be adopted for any customer seeking service from Freedom in the future. I will also explain how due to the Freedom ownership structure, the Commission's review of Freedom's rate proposal does not need to be as exhaustive as that of proposals made by investor-owned utilities.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

**A.** I will discuss the regulatory implications of the Freedom ownership structure as it relates to this filing. Further, I am sponsoring the revenue requirement calculation of Freedom using an operating ratio methodology, supporting five adjustments to operations and an income tax expense component. I also support a slight modification to the existing Freedom rate structure. I discuss unique aspects of Freedom 's operations that should be considered in the KCC's review of this filing. I also calculate Freedom’s 2021 per book Debt Service Coverage ratio and its implications on the reasonableness of the Freedom rate proposal. Finally, I will re-affirm Freedom’s commitment to agree to provide wholesale service to BH per the Settlement Agreement adopted in Docket 14-FRPG-599-COC.

**Q. WHAT SCHEDULES ARE YOU SPONSORING?**

**A.** I am sponsoring the following schedules:

Exhibit DND-1 Professional Background and Experience

Confidential Exhibit DND-2 Freedom Balance Sheet

Confidential Exhibit DND-3 Freedom Income Statement

Confidential Exhibit DND-4 Revenue Requirement Calculation

Confidential Exhibit DND-5 Proposed Rate Design

Confidential Exhibit DND-6 Debt Service Coverage Ratio

**Q. DO YOU HAVE ANY PRELIMINARY COMMENTS CONCERNING THE COMMISSION'S REVIEW OF FREEDOM'S PROPOSED RATES?**

**A.** Yes. As discussed by Mr. Heger the customers of Freedom are also owners of Freedom, similar to an electric coop ownership model, familiar to the Commission. The customers of Freedom are the nonprofit utilities (NPUs) described by Mr. Heger, who, in turn, is owned by individual NPU customers. The Boards of Directors of the NPUs direct the operation of Freedom and endorse the rates charged by Freedom to the NPUs. Thus, the need to protect captive customers, as is the case with investor-owned utilities, does not exist in the Freedom/NPU ownership structure. For these reasons, I do not believe the Commission needs to apply the same rigor to the reasonableness of this proposal as it would apply to rate increase proposals of investor-owned utilities. Further, Freedom is not seeking to increase its current rates but instead proposes to maintain its existing overall revenue requirement with a slight revenue-neutral modification to its rate structure, discussed later in my testimony.

**Q. PLEASE TURN TO YOUR CALCULATION OF FREEDOM'S REVENUE REQUIREMENT. BEGIN BY PROVIDING A GENERAL EXPLANATION OF HOW YOU DETERMINED AN APPROPRIATE REVENUE REQUIREMENT FOR FREEDOM.**

**A.** I relied upon the 2021 Balance Sheet and Income Statement of Freedom as the starting point to calculate an appropriate revenue requirement, identified as Exhibits DND-2 and 3, respectively. Exhibit DND-4 sets forth the calculation of the Freedom revenue requirement based on 2021 Pro-forma operating results. As reflected on line 27, I support a revenue requirement of $1,064,916. I computed the revenue requirement by calculating five Pro-forma adjustments to the 2021 per-book operating expenses and applying a 10% operating ratio. From this balance, I also attributed an income tax component applicable to the NPUs using the composite state/federal statutory tax rates. Exhibit DND-4 sets forth the adjustments I am sponsoring.

**Q. PLEASE DESCRIBE THE FIRST ADJUSTMENT YOU ARE SPONSORING TO THE COMPANY'S 2021 OPERATIONS.**

**A.** The first adjustment increases Pro-forma operating revenue $24. This immaterial adjustment is necessary to match the 2021 throughput with Freedom operating revenue such that total volumes applied to the current contractual rate per MMBTU of $.85 match the test period revenue.

**Q. TURN TO THE SECOND ADJUSTMENT AND EXPLAIN THE PURPOSE OF THE ADJUSTMENT.**

**A.** The second adjustment reduces Interest Expense by $18,321 by annualizing interest costs based upon a recent query by Freedom. I calculated the annual interest expense based on the daily interest costs accruing to the Company for its three outstanding loan issuances.

**Q. WHAT IS THE THIRD ADJUSTMENT YOU ARE SPONSORING?**

**A.** The third adjustment I am sponsoring increases Depreciation and Amortization Expense by $125,274. I am proposing that the Commission adopt a three-year amortization period for Start-Up and organization costs based upon the outstanding balance, net of accumulated amortization, on August 31, 2022.

**Q. WHAT IS THE CURRENT AMORTIZATION PERIOD FOR THIS INTANGIBLE ASSET BALANCE?**

**A.** The Company is currently amortizing these costs over fifteen years. The remaining life of this asset as of August 2022 is approximately 9.25 years.

**Q. WHAT IS THE RATIONALE FOR ACCELERATING THE AMORTIZATION OF THESE COSTS?**

**A.** Freedom seeks authority from the Commission to amortize these costs over three years. The annual operating results of Freedom are significantly driven by the level of precipitation occurring throughout the year, with an emphasis on the summer months. The Company wishes to avoid any possibility of a stranded asset situation regarding these costs in the event of declining usage. I believe the Commission should provide the Company some latitude in adopting this amortization period because Freedom is only serving customer-owners at this time[1], which has the potential for declining usage in the future. Further, the limitation on summer peaking capacity, as explained by Mr. Hanson, suggests

[1] Freedom does not plan to seek recovery of these costs from Black Hills in its pending contract negotiations.

it is unlikely that the accelerated amortization proposed by Freedom would significantly impact third parties.

**Q. WHAT IS YOUR FOURTH ADJUSTMENT TO FREEDOM OPERATIONS.**

**A.** Adjustment No. 4 increases Amortization Expense by $58,900 to reflect a three-year amortization of the estimated costs associated with the pending filing. Freedom will track the actual regulatory costs as the case progresses.

**Q. ADDRESS ADJUSTMENT NO. 5 TO FREEDOM'S OPERATING RESULTS**

**A.** Adjustment No. 5 increases Professional Service fees by $30,000. This estimate reflects the additional costs expected to be incurred relative to addressing upstream imbalance charges from Freedom's natural gas supplier. Outside services are required to review, evaluate, and make recommendations on how to remediate these costs since Freedom has no employees. In addition, Freedom will incur the costs necessary to complete a special contract with Black Hills to provide wholesale service to its Moscow interconnection point.

**Q. WHAT IS THE TOTAL PRO-FORMA LEVEL OF OPERATING EXPENSES YOU ARE SUPPORTING IN THIS FILING?**

**A.** I am supporting total operating expenses of $925,835 as reflected on Line 17 of Exhibit DND-4.

**Q. ARE YOU SUPPORTING AN INCOME TAX EXPENSE COMPONENT WITHIN THE FREEDOM REVENUE REQUIREMENT?**

**A.** Yes. I understand that the NPUs are subject to federal and state income taxes. I believe it's appropriate then to reflect an income tax expense component within the Freedom revenue requirement that reflects the pass-through obligation of Freedom income tax expense to its

NPU owners. I have calculated this on lines 20 – 27 in Exhibit DND-4, resulting in an imputed Income Tax Expense of $32,877.

**Q. HOW DID YOU CALCULATE THE OVERALL REVENUE REQUIREMENT OF FREEDOM?**

**A.** I applied a 10% operating margin to the Pro-forma operating expenses of Freedom. Using a 10% operating margin is reasonable to apply to a system such as Freedom designed to serve its owner/customers. The targeted operating revenue before consideration of Income Tax Expense is reflected on line 22 of Exhibit DND-4. The overall corporate composite state/federal tax rates of the NPUs were calculated at 24.16% as shown on Exhibit 4. The targeted operating margin of $103,204 produces Income Tax Expense of $32,877. The sum of the pre-tax Operating revenue and the calculated Income Tax Expense produces total target revenue of $1,064,916. This revenue requirement is similar to the actual 2021 margin revenue of $1,071,790[2]. This difference between actual revenue and targeted revenue is immaterial. In my opinion, the revenue requirement analysis demonstrates that existing rates are reasonable to charge any unaffiliated customer seeking service from Freedom in the future.

**Q. ARE YOU PROPOSING A MODIFICATION TO THE EXISTING $.85 DELIVERY RATE PER MMBTU?**

**A.** Yes. I am supporting a two-part rate, including a customer charge of $350/month. The customer charge would, in small measure, reflect the recovery of Freedom's fixed costs. Most of Freedom's costs are fixed in nature and unrelated to its amount of throughput.

[2] This level of net revenue is net of purchase gas revenue and expense given that Freedom provides service on a sale-for-resale basis and passed through its gas costs to its members at cost, with no markup.

Freedom's two large expense items - Interest Expense and Depreciation Expense - are fixed. The proposed Freedom customer charge is in line with that levied by Black Hills. The rate design is intended to be revenue neutral with the current rates of Freedom, incorporating a proposed volumetric rate of $.8483/MMBTU, a reduction from the current $.85/MMBTU rate. The application of the $350/month proposed customer charge and the proposed $.8483/MMBTU applied to the test period level of throughput equals the 2021 net revenue of $1,071,814. The calculation in Exhibit DND-5 demonstrates the revenue-neutral Freedom rate design proposal.

**Q. ARE THERE OTHER FACTORS YOU BELIEVE THE COMMISSION SHOULD CONSIDER IN EVALUATING THE REASONABLENESS OF FREEDOM'S PROPOSAL?**

**A.** Yes. As the Commission is well aware, establishing a reasonable revenue requirement for a utility involves judgment in addition to the technical aspects of ratemaking. There are several ways in which the Freedom revenue requirement may be calculated, and there is certainly no single 'correct' Freedom revenue requirement. However, I recommend the Commission should provide some latitude to the management decisions of Freedom in establishing its rates, given the context in which Freedom operates.

As discussed by Mr. Heger, the rates proposed in this docket would be charged to the existing NPU customers of Freedom as well as any prospective unaffiliated Freedom customer. Therefore, the Commission is assured that rates charged to any unaffiliated entity will be done on a non-discriminatory basis since the rates would be identical to those charged to Freedom's existing customer-owners.

Evidence provided by Mr. Hanson also supports the argument that Freedom should be allowed some latitude in establishing its rates. Mr. Heger identifies the factors that may impact the operating margin of Freedom, including variations in precipitation, reduced commodity costs, and increases in fertilizer costs. I believe the Commission should recognize the factors that may impact the cash-flow needs of Freedom in its consideration of this case. Freedom believes the proposed rate structure is necessary to accommodate these potential risks going forward.

Freedom does not have a diverse customer base, and its throughput is subject to precipitation variations. Both of these factors suggest that annual operating revenue may vary significantly. As discussed previously, Freedom does not have a profit motive, as do investor-owned utilities. For these reasons, I believe the Commission should provide deference to the management of Freedom when evaluating this proposal and find that the proposed rates are within a reasonable range to apply to potential third parties that may seek service.

**Q. WHAT OTHER DATA POINTS SHOULD THE COMMISSION CONSIDER IN ASSESSING THE REASONABLENESS OF FREEDOM'S PROPOSED RATE?**

A. The Commission can use a Debt Service Coverage ("DSC") ratio analysis as a reasonableness check on the proposed rates.

**Q. WHAT IS A DEBT SERVICE COVERAGE RATIO?**

A. The ratio is a measure of an organizations' ability to make its debt service payments. The cash-flow margin embedded in the ratio implies that to be financially sound an organization needs a cash flow surplus above its debt service obligations. The ratio is calculated by determining an entity's cash flow from Net Income (excluding charges for Depreciation and Interest) divided by its total debt service obligations.

**Q. HAS THE COMMISSION ENDORSED A PARTICULAR DSC RATIO IN ANOTHER CASE?**

**A.** My understanding is that the Commission has adopted a target DSC ratio of 1.6 in the review of the rates of Southern Pioneer Electric Company ("SPEC") in Docket No. 21-SPEE-411-RTS.

**Q. WHAT IS THE 2021 DSC RATIO OF FREEDOM?**

**A.** As reflected in Exhibit DND-6, I have calculated the Freedom DSC ratio at 1.39 based upon its 2021 operations. Applying the SPEC approved DSC ratio of 1.6 demonstrates a revenue shortfall of over $127,000. The calculation of the DSC ratio based upon 2021 results further demonstrates the reasonableness of Freedom's request.

**Q. CAN YOU PROVIDE THE STATUS OF THE FREEDOM COMMITMENT TO PROVIDE SERVICE TO BLACK HILLS?**

A. Yes. Discussions with Black Hills have been initiated to provide wholesale service to Black Hills at its interconnect near Moscow. It is uncertain when an agreement may be reached and when such service may commence. Upon agreement of the parties, Freedom will submit the contract to the Commission for review and approval.

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

A. Yes.

**Exhibit DND-1**

**David Dittemore**

**Experience**

**Areas of Specialization**
Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Self-Employed; **Consultant July 1 - Current**; Responsible for providing evaluation of utility ratemaking issues on behalf of clients. Prepare analysis and expert witness testimony.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – June 2021;** Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 - 2017; Manager Regulatory Affairs, 2007 - 2014**
Responsible for directing the regulatory activity of Kansas Gas Service (KOS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KOS, formulated strategic legislative options for KOS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis, I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007
**Principal;** Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003
**Manager Regulatory Affairs;** Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

**Manager, Wholesale Billing Resolution;** Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than $SOK. During my tenure, completed disputes increased by over 100%, rising to $150M per year.

Kansas Corporation Commission; 1984- 1999

**Utilities Division Director** - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of $2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

**Asst. Division Director** - 1996 - 1997; Perform duties as assigned by Division Director.

**Chief of Accounting** 1990 - 1995; Responsible for the direct supervision of9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

**Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor** 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

**Accountant** Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

**Education**

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) - Not a license to practice

**PUBLIC** Exhibit DND-2

FREEDOM PIPELINE, LLC

STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY

December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | | |
| Accounts receivable | | |
| TOTAL CURRENT ASSETS | | |
| PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation | | |
| OTHER ASSETS | | |
| Start up costs, at cost, less accumulated amortization | | |
| Organizational costs, at cost, less accumulated amortization | | |
| TOTAL OTHER ASSETS | | |
| TOTAL ASSETS | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | | |
| Accrued interest payable | | |
| Deferred accounting change | | |
| TOTAL CURRENT LIABILITIES | | |
| NOTES PAYABLE | | |
| TOTAL LIABILITIES | | |
| MEMBERS' EQUITY | | |
| Retained earnings | | |
| Members' equity | | |
| Net income | | |
| TOTAL MEMBERS' EQUITY | | |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | | |

No assurance is provided on the accompanying financial statements.
The financial statements omit substantially all disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America.

PUBLIC

Exhibit DND-3

FREEDOM PIPELINE, LLC

STATEMENT OF INCOME AND EXPENSE

For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **INCOME** | | |
| SALES | | |
| COST OF SALES | | |
| TOTAL OPERATING INCOME | | |
| **EXPENSE** | | |
| OPERATING EXPENSES | | |
| Bank charges | | |
| Depreciation | | |
| Licenses and permits | | |
| Insurance | | |
| Interest | | |
| Operating | | |
| Professional fees | | |
| Repairs | | |
| Supplies | | |
| Taxes - Other | | |
| Telephone | | |
| Utilities | | |
| TOTAL OPERATING EXPENSES | | |
| OTHER INCOME | | |
| NET INCOME | | |

No assurance is provided on the accompanying financial statements.
The financial statements omit substantially all disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America.

**Public**

**Freedom Pipeline**
**Calculation of FPL Revenue Requirement**

**Exhibit DND-4**

| Line No. | Category | Amount | 1: To Synchronize Volumes and Pro-Forma Revenue | 2: To Reflect a Pro-Forma level of Interest Expense | 3: To Accelerate Amortization of Start-up Costs | 4: To Reflect Amortization of Regulatory Costs | 5: To Reflect Increased Professional Service Fees | Total Pro-Forma Adjustments | Total Pro-Forma Operations |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Sales | | | | | | | | |
| 2 | Cost of Sales | | | | | | | | |
| 3 | Total Operating Income | | | | | | | | |
| 4 | Operating Expenses | | | | | | | | |
| 5 | Bank Charges | | | | | | | | |
| 6 | Depreciation | | | | | | | | |
| 7 | Licenses and permits | | | | | | | | |
| 8 | Insurance | | | | | | | | |
| 9 | Interest | | | | | | | | |
| 10 | Operating Expenses | | | | | | | | |
| 11 | Professional Fees | | | | | | | | |
| 12 | Repairs | | | | | | | | |
| 13 | Supplies | | | | | | | | |
| 14 | Taxes-Other | | | | | | | | |
| 15 | Telephone | | | | | | | | |
| 16 | Utilities | | | | | | | | |
| 17 | Total Operating Expenses | | | | | | | | |
| 18 | Other Income | | | | | | | | |
| 19 | Net Income | | | | | | | | |

| Line No. | Calculation of FPL Revenue Requirement | | |
|---|---|---|---|
| 20 | Pro-Forma Operating Expenses | | |
| 21 | Divided by: Reciprocal Operating Margin | 90.00% | |
| 22 | Operating Revenue Subtotal | | |
| 23 | Plus: Income Tax Expense | | |
| 24 | Taxable Net Income (Required Operating Income less Pro-Forma Expenses) | | |
| 25 | Divided by Reciprocal Tax Factor (100% - 24.16%) | 75.84% | |
| 26 | Income Tax Expense | | |
| 27 | **Total Revenue Required at 10% Operating Margin** | | |

| Calculation of Composite Tax Rate | |
|---|---|
| Income Subject to tax | 100% |
| Less: State Tax | 4% |
| Income Subject to Federal Tax | 96% |
| Federal Rate | 21% |
| Effective Federal Tax | 20.16% |
| Plus State Tax | 4% |
| Effective Composite Tax Rate | 24.16% |
| Reciprocal Rate | 75.84% |

PUBLIC

**Freedom Pipeline Company** **Exhibit DND-5**

**Rate Design Proposal**

| Line No. | | |
|---|---|---|
| 1 | Revenue Requirement | |
| 2 | Volumes | |
| 3 | Effective Overall Rate per MMBTU | |
| 4 | **Proposed Customer Charge/Month** | |
| 5 | Applied to 6 Customer/Owners | |
| 6 | Monthly Revenue through Customer Charge | |
| 7 | Annual Customer Charge Revenue | |
| 8 | Residual Revenue to be Collected through volumetric charge | |
| 9 | Annual Throughput | |
| 10 | Proposed Rate per MMBTU | |

**PUBLIC**

**Freedom Pipeline**
**Calculation of Debt Service Ratio**

**Exhibit DND-6**

| Line No. | Item | Amount 2021 Actual | Amount Pro-Forma | Source |
|---|---|---|---|---|
| 1 | Net Operating Income 2021 | | | |
| 2 | Plus: | | | |
| 3 | Interest Expense | | | |
| 4 | Depreciation | | | |
| 5 | Less: Unamortized Regulatory Costs | | | |
| 6 | Cash Available for Debt Service | | | |
| 7 | Divided By the Sum Of: | | | |
| 8 | Principal Payment (if paid 11/2/22) | | | |
| 9 | Annualized Interest | | | |
| 10 | Subtotal Debt Obligations | | | |
| 11 | Debt Service Coverage Ratio | | | |
| 12 | Target DSC Ratio | | | |
| 13 | Cash Necessary to Achieve Desired DSC Ratio | | | |
| 14 | Cash Shortfall to Achieve 1.6 DSC Ratio | | | |

# VERIFICATION

STATE OF Tennessee )
) ss
COUNTY OF Wilson )

The undersigned, David Dittemore, upon oath first duly sworn, states that he is an outside consultant for Freedom Pipeline, LLC, that he has reviewed the foregoing *Direct Testimony,* that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

David Dittemore

David Dittemore

Subscribed and sworn to before me this 8 day of November 2022.

Notary Public

My appointment expires: 05/09/2026

IRVING COLEMAN STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY COMM. EXP. 05-09-2026