

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

APPLICATION OF OKLAHOMA NATURAL )  
GAS COMPANY, A DIVISION OF ONEOK, )  
INC., FOR A REVIEW AND CHANGE OR )  
MODIFICATION IN ITS RATES, CHARGES, )  
TARIFFS, AND TERMS AND CONDITIONS )  
OF SERVICE )

CAUSE NO. PUD 200900110

**FILED**

JUN 26 2009

COURT CLERK'S OFFICE — OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

**DIRECT TESTIMONY**

**OF**

**ALEX POLLOCK**

**ON BEHALF OF**

**OKLAHOMA NATURAL GAS**

**JUNE 26, 2009**

1 Q. Please state your name.

2 A. My name is Alex Pollock.

3 Q. By whom are you employed and in what capacity?

4 A. I am employed by Oklahoma Natural Gas Company ("Oklahoma Natural," or the  
5 "Company") as a Rates Analyst in the Rates and Regulatory Reporting  
6 Department.

7 Q. Please briefly describe your educational and professional background.

8 A. I have a Bachelor of Business Administration with a major in Accounting and a  
9 minor in Finance from the University of Oklahoma. I have been employed by the  
10 Company since June 2007. Prior to my current position, I worked in Financial  
11 Planning and Analysis as a Financial Analyst.

12 Q. What are your current responsibilities?

13 A. I am responsible for conducting analyses related to issues brought before the  
14 Oklahoma Corporation Commission (the "Commission").

15 Q. Have you previously testified before the Commission and, if so, were your  
16 credentials as an expert witness accepted?

17 A. Yes, I have testified and my credentials were accepted.

18 Q. Mr. Pollock, what is the purpose of your testimony?

19 A. The purpose of my testimony is to address and sponsor pro-forma adjustments  
20 RB-4, E-1, and E-23. I will also briefly discuss the cash working capital  
21 allowance requested by Oklahoma Natural. These adjustments were discussed

1 with, and supervised by Mr. David Scalf, Manager of the Rates and Regulatory  
2 Reporting Department.

3 **RATE BASE ADJUSTMENTS**

4 Q. Please begin with Pro-Forma Adjustment RB-4 related to changes in plant,  
5 property, and equipment, and explain the various components of that adjustment.

6 A. Pro-Forma Adjustment RB-4 is comprised of a number of adjustments, which are  
7 reflected on Schedules C-2 (Pro-Forma Plant, Property and Equipment) and D-2  
8 (Adjustments to Accumulated Depreciation). The total adjustment reduces rate  
9 base by \$5,499,974.

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11 **PLANT, PROPERTY AND EQUIPMENT**

12 **Fort Sill**

13 Q. Why is an adjustment for Fort Sill assets included in Pro-Forma Adjustment RB-  
14 4?

15 A. In 2001, Oklahoma Natural acquired the distribution assets of Fort Sill, a United  
16 States Army installation, after becoming the successful bidder for a contract  
17 under the Army's Utility Privatization Program. Pursuant to the Commission  
18 order approving the transaction, Order No. 453529 issued in Cause No. PUD  
19 200100189, the Company tracks the assets, expenses, and revenues associated  
20 with Fort Sill and removes them for ratemaking purposes to avoid subsidization  
21 by Oklahoma Natural's other customers. Adjustment C-1 removes \$3,755,866 in  
22 Fort Sill Assets from the Company's plant in service. A depreciation related  
23 adjustment is also necessary and is discussed later in my testimony.

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Corporate Aircraft

3 Q. What is the nature of the corporate aircraft adjustment contained in Schedule C-  
4 2?

5 A. Schedule C-2 removes Oklahoma Natural's portion of the ONEOK Corporate  
6 Aircraft from the Company's rate base. Oklahoma Natural is allocated a portion  
7 of ONEOK's plant assets, all of which are captured in Schedule C-2. Adjustment  
8 C-2 removes allocated Corporate Aircraft from the Company's plant in service in  
9 the amount of \$1,976,789. A necessary depreciation related adjustment is also  
10 discussed later in my testimony.

11 Q. What is the reason for not including corporate aircraft in the current filing?

12 A. Removing all costs associated with this aircraft is consistent with the positions  
13 taken by the Company in previous rate cases.

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Plant Held for Future Use

16 Q. Please explain the final Schedule C-2 component of Pro-Forma Adjustment RB-  
17 4, which is Adjustment C-3.

18 A. This adjustment removes \$105,124 in plant held for future use, and is necessary  
19 because such plant is not currently used and useful in providing utility service.

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Known and Measurable Changes

22 Q. Mr. Pollock, has the Company included an adjustment for known and measurable  
23 changes in plant levels since test-year end at December 31, 2008?

1 A. No, not at this time.

2 Q. Does the Company intend to update plant levels after the end of the six-month  
3 post test-year period, June 30, 2009?

4 A. Yes. Oklahoma statute Title 17, Section 284, requires the Commission to give  
5 effect to known and measurable changes occurring or reasonably certain to  
6 occur within six months of the end of the test year period upon which the rate  
7 review is based. Rather than attempting to estimate future plant levels, the  
8 Company will submit the actual six-month post-test year increases to plant levels,  
9 including accumulated depreciation to all the parties in this Cause in July 2009.  
10 The six-month cut-off period utilized in this general rate change filing is January  
11 1, 2009 through June 30, 2009.

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#### **ACCUMULATED DEPRECIATION**

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##### Fort Sill

15 Q. Mr. Pollock, please turn now to the depreciation components of Pro-Forma  
16 Adjustment RB-4 that are found in Schedule D-2 and explain Adjustment D-1.

17 A. In addition to the Schedule C-2 adjustment related to Fort Sill assets, there is a  
18 related adjustment necessary to remove the reserve position associated with  
19 these assets. Adjustment D-1 removes \$385,070 in accumulated depreciation  
20 related to Fort Sill.

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Corporate Aircraft

Q. Please explain Adjustment D-2.

A. This adjustment is to remove accumulated depreciation related to corporate aircraft. Adjustment D-2 removes the reserve position of (\$47,265).

**OPERATING INCOME ADJUSTMENTS**

Corporate Aircraft

Q. Please turn now to the first of the Operating Income Adjustments, Pro-Forma Adjustment E-1, and describe the adjustment.

A. Pro-Forma Adjustment E-1 removes the test year operating costs associated with the aircraft from Oklahoma Natural's cost of service in the amount of \$94,585.

Adjustment to Depreciation Rates

Q. What is Pro-Forma Adjustment E-23?

A. The test-year depreciation expense is based upon depreciation rates that were set within the Joint Stipulation in Consolidated Cause Numbers 980000683, 980000570, 990000166 and approved by Commission Order No. 441549 dated May 30, 2000. An updated depreciation study was performed by Foster Associates, Inc. for this filing, and the study will be supported by witness Dr. Ronald E. White. Pro-Forma Adjustment E-23 in the amount of \$3,536,934 is necessary to reflect changes in test year depreciation expense resulting from the

1 updated study and to reflect the actual depreciable rates associated with the test  
2 year.

3 **CASH WORKING CAPITAL**

4 Q. Mr. Pollock, you stated that you are supporting the Company's lead-lag study  
5 and the resulting cash working capital allowance included in Oklahoma Natural's  
6 rate base.

7 A. Yes, that is correct.

8 Q. What is a cash working capital allowance?

9 A. The term cash working capital allowance refers to the amount of investor  
10 supplied cash that Oklahoma Natural needs in order to operate and manage its  
11 utility operations. Because there is a lag between the point in time when the  
12 Company pays for the costs associated with providing service to its ratepayers  
13 and the point in time in which the Company receives the revenues from its  
14 ratepayers to recover such costs, the term cash working capital allowance refers  
15 to the operating funds needed to bridge the lag between those two distinct points  
16 in time. The most accurate method for calculating a utility's cash working capital  
17 allowance is a lead-lag study.

18 Q. What is a lead-lag study?

19 A. The term "lead-lag" study identifies an analysis performed to determine the level  
20 of cash working capital that investors in a public utility must provide to meet the  
21 day-to-day operating costs of the utility prior to the time such costs are recovered  
22 from the ratepayers. This analysis involves an examination of the net time lag  
23 between the date when the ratepayer receives service from the utility and the

1 date in which the ratepayer pays for the services provided. This lag is off-set (or  
2 reduced) by the offsetting expense leads that the utility experiences between the  
3 date that employees and suppliers render service to the utility and the day that  
4 the Company is required to pay for such services. Once these net lags are  
5 determined, they are applied to various revenue and expense items to determine  
6 the cash working capital allowance. These net lag days are the most significant  
7 information drawn from the study. The calculation of net lag days is used to  
8 calculate the percentage of days on average that these operating funds are  
9 necessary during the year. This percentage of days, on average, is then applied  
10 to expenses by category that must be funded during the year. The sum of these  
11 calculations, by expense category is then added to the rate base as the cash  
12 working capital allowance. A lead-lag study is based upon a specific analysis of  
13 the experience of the utility and is applied to the specific accounts of that utility.

14 Q. When was the last complete lead-lag study performed by Oklahoma Natural?

15 A. In the Company's last general rate change filing, Cause No. PUD 200400610, a  
16 full lead-lag study was performed.

17 Q. Are the results of that lead-lag study still applicable today?

18 A. Yes. The time and costs necessary to perform a complete lead-lag study are  
19 extensive compared to alternative methodologies. In some cases the costs of  
20 performing a lead-lag study may not justify the benefits. The Company believes  
21 that the results generated from the most recent lead-lag study are still applicable  
22 at the current time and if a new study were to be performed the results would not  
23 differ materially, with the exception of the removal of budget pay customers

1        which has been accounted for in the current study. For this reason Oklahoma  
2        Natural has chosen to adopt the results of the calculation of net lag days from the  
3        prior study with the exception of the budget pay customers and to update the  
4        revenue and expense categories with current test-year data. This approach  
5        combines the accuracy obtained from the lead-lag study while eliminating the  
6        time and costs normally accompanied by this method.

7        Q.    What were the results of the current lead-lag study?

8        A.    The current lead-lag study resulted in a cash working capital allowance of \$8.2  
9        million as identified within Application Schedule E-1. For a detailed discussion of  
10       the calculations and analysis of Oklahoma Natural's current lead-lag study,  
11       please review the Supplemental filing – Workpaper E-1.

12       Q.    Mr. Pollock, does this conclude your direct testimony?

13       A.    Yes, it does.