

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

CORY SLAUGHTER

ON BEHALF OF

OKLAHOMA NATURAL GAS

JUNE 26, 2009

1 Q. Please state your name.

2 A. My name is Cory Slaughter.

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 am a Certified Public Accountant with a Bachelor of Science degree in
9 Accounting from East Central University. I have been employed with the
10 Company for 6-1/2 years in various roles including internal audit, financial
11 planning, and currently rates and regulatory. Prior to working for the Company I
12 was employed for 2 years as an external auditor for a large accounting firm.

13 Q. What are your current responsibilities?

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

16 Q. Have you previously testified before the Commission?

17 A. Yes, I have and my credentials have been accepted as an expert witness.

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

19 A. The purpose of my testimony is to address and sponsor pro-forma adjustments
20 R-7, R-8, E-3, E-4, E-5, E-6, E-7, E-8, E-10, E-12 and J-1. These adjustments
21 were discussed with, and supervised by Mr. David Scalf, Manager of the Rates
22 and Regulatory Reporting Department.

1 FORT SILL

2 Q. Mr. Slaughter, please explain adjustments R-7 and E-3 related to Fort Sill
3 Revenues and Expenses.

4 A. Adjustments R-7 and E-3 relate to the provision of service to Ft. Sill. By
5 Commission Order No. 453529, issued in Cause No. PUD 200100189, the
6 Company was authorized to charge non-tariff rates under a special contract to
7 provide natural gas distribution service to Ft. Sill, a United States Army
8 installation. The Company agreed to track the assets, expenses, and revenues
9 associated with Ft. Sill and remove them from subsequent rate cases.

10 Q. What are the adjustments the Company proposes regarding Ft. Sill?

11 A. Pro-forma adjustment R-7 reduces revenue by \$892,226 or the amount collected
12 from Ft. Sill during the test year, and pro-forma adjustment E-3 reduces expense
13 by \$177,488 or the amount expended to provide Ft. Sill service during the test
14 year. Mr. Alex Pollock will discuss the treatment of the Ft. Sill assets in rate
15 base.

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CIM RIDER ADJUSTMENT

18 Q. Mr. Slaughter, please explain the purpose of removing CIM Rider Revenues from
19 base rates in adjustment R-8?

20 A. This \$7,714,254 adjustment is necessary to remove all revenues collected
21 through the CIM Rider during the test year. The parties to the PBRC joint
22 stipulation in Cause No. PUD 200800348 agreed to terminate the CIM rider and

1 integrate those assets into rate base. A more detailed discussion of the
2 adjustment is included as part of the Application Package filed in this Cause.

3

4 **OTHER POST-RETIREMENT EMPLOYEE BENEFIT EXPENSE**

5 Q. Mr. Slaughter, please explain adjustment E-4 related to Other Post-Retirement
6 Benefit (OPEBs) expenses.

7 A. The purpose of adjustment E-4 is to recognize the known and measurable
8 decrease of \$815,378 in OPEB costs occurring after test year end.

9 Q. Could you briefly explain what OPEBs are?

10 A. The term OPEBs refers to FAS 106 – post-retirement benefits other than
11 pensions. FAS 106 states that an employer must accumulate the future cost of
12 post-retirement health care benefits during the active years of an employee's
13 service.

14 Q. How was the adjustment calculated?

15 A. The monthly OPEB expense that was booked for January 2009 was annualized
16 and compared to test year levels resulting in the decreased OPEB expense.

17 Q. Why was the monthly expense level at January 2009 chosen to compute this
18 adjustment?

19 A. January 2009 was chosen because changes to the monthly levels of OPEB
20 expense occur annually in January. Also, this change occurs within six months
21 of test year end and is known and measurable.

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HEALTH INSURANCE

2 Q. Mr. Slaughter, please explain adjustment E-5 related to Health Insurance
3 expense.

4 A. The purpose of adjustment E-5 is to recognize the known and measurable
5 increase in health insurance expense of \$425,532 occurring after test year end.

6 Q. How was this adjustment calculated?

7 A. The monthly health insurance expense that was booked for January 2009 was
8 annualized and compared to test year levels resulting in the increased health
9 insurance expense.

10 Q. Why was the monthly expense level at January 2009 chosen to compute this
11 adjustment?

12 A. January 2009 was chosen because changes to the monthly levels of health
13 insurance expense occur annually in January. Also, this change occurs within
14 six months of test year end and is known and measurable.

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PENSION EXPENSE

17 Q. Mr. Slaughter, please explain the purpose of your adjustment to test year
18 pension expense.

19 A. The purpose of adjustment E-6 is to recognize the known and measurable
20 increase in pension costs of \$2,053,000 occurring after test year end.

21 Q. How was this adjustment calculated?

22 A. The monthly pension expense that was booked for January 2009 was annualized
23 and compared to test year levels resulting in the increase to pension expense.

1 Q. Why was the monthly expense level at January 2009 chosen to calculate this
2 adjustment?

3 A. January 2009 was chosen because changes to the monthly levels of pension
4 expense occur annually in January. Also, this change occurs within six months
5 of test year end and is known and measurable.

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PAYROLL

8 Q. Mr. Slaughter, please explain the purpose of adjustment E-7 increasing payroll
9 expense.

10 A. Adjustment E-7 was made to capture recorded increases in payroll in January
11 2009.

12 Q. How was this adjustment calculated?

13 A. The booked expenses for January 2009 payroll were annualized and compared
14 to test year payroll expense to calculate an increase of \$1,528,597.

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LABOR ATTENDANT

17 Q. Mr. Slaughter, please explain the purpose of adjustment E-8 increasing labor
18 attendant costs and its relation to payroll adjustment E-7.

19 A. Adjustment E-8 was made to capture increases in labor attendant based on the
20 2009 labor attendant rate and payroll expense increase in adjustment E-7.

21 Q. How was this adjustment calculated?

22 A. Payroll expense adjustment E-7 was multiplied by the 2009 labor attendant rate
23 resulting in an increase to labor attendant expense in the amount of \$584,077.

1 **RATE CASE EXPENSE**

2 Q. Please explain the purpose of Adjustment E-10.

3 A. To date, Oklahoma Natural has retained four outside consultants to assist with
4 the development of the Company's general rate change filing. In addition, the
5 law firm of Gable & Gotwals will be providing rate case processing support as
6 Oklahoma Natural's primary legal counsel for the case.

7 The ultimate level of rate case expense incurred will depend upon the level of
8 discovery that must be addressed and upon the level and scope of rebuttal
9 testimony that must be filed. Whether or not the cause actually goes to a full
10 hearing will also impact the level of rate case expense that will be incurred.

11 The amount that the Company requests to be reflected within base rates will be
12 the actual expense incurred to process this Cause coupled with a three-year
13 amortization period.

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15 **CONTRACT LABOR**

16 Q. Mr. Slaughter, please explain the purpose of adjustment E-12 increasing contract
17 labor expense.

18 A. Pro-forma adjustment E-12 increases contract labor expense based on 5
19 individual projects:

20 1. An adjustment to capture \$1,300,000 of costs related to cathodic protection of
21 steel risers;

22 2. An adjustment to capture \$1,539,061 of costs related to a re-negotiated line
23 locates contract;

- 1 3. An adjustment to capture \$241,547 of costs related to the OKC Metro Leak
2 Repair Program;
- 3 4. An adjustment to capture \$103,700 of costs related to 2008 Tubis
4 maintenance being paid in December 2007; and
- 5 5. An adjustment to capture \$25,200 of costs related to Energy Star audits.

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INCOME TAXES

8 Q. Please explain the purpose of adjustment J-1.

9 A. Adjustment J-1 reflects a reduction to income tax expense and is required to
10 reflect the change in income taxes resulting from the effects of all of Oklahoma
11 Natural's pro-forma adjustments associated with the rate base and the operating
12 income statement.

13 Q. Mr. Slaughter, does this conclude your direct testimony?

14 A. Yes, it does.