

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

MARY ANN CARTER

ON BEHALF OF

OKLAHOMA NATURAL GAS

JUNE 26, 2009

1 Q. Please state your name.

2 A. My name is Mary Ann Carter.

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

4 A. Oklahoma Natural Gas Company ("Oklahoma Natural" or the "Company")
5 employs me in the Rates and Regulatory Reporting Department as an Analyst.

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

7 A. I have a Bachelor of Science Degree in Marketing from Oklahoma State
8 University. I have been employed at Oklahoma Natural for 9 years. I've worked
9 primarily in the Contract Administration department and have been responsible
10 for the duties associated with the monthly Purchased Gas Adjustment (PGA).

11 Q. Have you previously testified before the Oklahoma Corporation Commission ("the
12 Commission")?

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

14 Q. Ms. Carter, what is the purpose of your testimony?

15 A. The purpose of my testimony is to address and sponsor pro forma adjustments
16 RB-1, RB-2, RB-6, RB-7, R-3, R-4, R-5, R-6, R-13, R-14, R-15, E-13, E-14, E-15,
17 E-16, E-17, E-19, and E-21. These adjustments were discussed with, and
18 supervised by Mr. David Scalf, Manager of the Rates and Regulatory Reporting
19 Department.

1 **RIDER RELATED ADJUSTMENTS**

2 Q. Ms. Carter, several of the pro-forma adjustments that you sponsor involve test
3 year tariff rider recoveries. Are the revenues and expenses that are recovered
4 through these Commission approved riders at issue in this Cause?

5 A. No, they are not at issue here. This Cause relates to the establishment of the
6 new "base rates" that Oklahoma Natural is to be authorized to bill customers on a
7 going forward basis. Therefore, this rider-related activity must be removed from
8 the test year. The specific rider-related pro-forma adjustments that I sponsor are
9 identified within the following table. A more detailed discussion for each
10 adjustment can be found within the workpapers for the respective adjustment,
11 which are included as part of the Application Package filed in this Cause.

Adjustment Number	Description	Amount of Adjustment
R-13	Purchased Gas Costs Billed (PGC)	\$568,734,661
R-14	Unrecovered Purchased Gas Costs Billed (UPGC)	\$45,402,987
E-15	Gas Costs Collected by the PGC and UPGC	\$614,137,648

12
13 **1990 STATE INCOME TAX INCREASE**

14 Q. Adjustment RB-1 reduces rate base by \$320,712. Why did you consider this
15 adjustment to be necessary?

16 A. Commission Order Number 388124, issued November 22, 1994, in Cause No.
17 PUD 910000190 ("1991 Rate Case") authorized the Company to amortize a 1990
18 state tax increase over the remaining life of the assets that initially generated the
19 deferred income taxes at the new state tax rate. A regulatory asset was created
20 to identify and track the remaining levels of deferred income taxes to be

1 amortized. Because this regulatory asset is a "tracking account" only, it should
2 be removed from rate base.

3
4 **1993 FEDERAL INCOME TAX INCREASE**

5 Q. Ms. Carter, is adjustment RB-2 similar to adjustment RB-1?

6 A. Yes, it is. In conjunction with the 1990 state tax increase, Commission Order
7 Number 388124 also authorized the Company to amortize the effect of a 1993
8 federal income tax increase through deferred income taxes. The deferred federal
9 income taxes that were accumulated by Oklahoma Natural prior to 1993 were
10 based upon the assumption that the taxes would turn-around at a lower rate than
11 what will actually occur. To resolve this issue, the Commission allowed the
12 Company to amortize these insufficient tax reserves over the remaining life of the
13 assets that initially generated the deferred income taxes at the new federal tax
14 rate. A regulatory asset was created to identify and track the remaining levels of
15 deferred income taxes associated with the 1993 federal income tax increase to
16 be amortized. Because this regulatory asset is a "tracking account" only,
17 adjustment RB-2 removes the associated \$937,196 balance from rate base.

18
19 **MATERIALS AND SUPPLIES**

20 Q. Please describe RB-6, the rate base adjustment to materials and supplies.

21 A. At test year end, the Company had a balance of \$3,597,975 on its balance sheet
22 related to materials and supplies. For the components of Working Capital
23 included in the rate base (such as gas-in-storage balances, materials and
24 supplies inventories, and prepayments) a 13-month average balance is more

1 representative of the Company's average investment in these items than the
2 balance recorded in the Company's books at the end of the test year. An
3 average balance over thirteen months normalizes the fluctuations in these
4 accounts during the test year. This ratemaking treatment is consistent with the
5 methodology approved by the Commission for these balances. Pro-forma
6 adjustment RB-6 adjusts the Company's materials and supplies test year end
7 balance to a 13-month average, increasing the rate base by \$76,385.

8
9 **PRE-PAID EXPENSE**

10 Q. Please describe RB-7, the rate base adjustment to pre-paid expense.

11 A. This adjustment increases rate base by \$120,372 to capture a 13-month average
12 of the direct pre-paid account balances instead of the test year end balance. The
13 reason for adopting the 13-month average is described above in the materials
14 and supplies section of the testimony.

15
16 **NON-UTILITY REVENUE**

17 Q. Ms. Carter, please address adjustments R-3, removal of non-utility revenue and
18 R-4, removal of non-utility revenue credited to expense.

19 A. The purpose of adjustment R-3 is to remove \$529,437 of non-utility revenue
20 received during the test year. The purpose of adjustment R-4 is to remove
21 \$29,183 of non-utility revenue that was actually "credited" to a utility expense
22 account in the test year by mistake, thus negating its effect.

1 **OCC ASSESSMENT FEE REVENUES**

2 Q: Why is it necessary to remove \$906,001 in revenues associated with OCC
3 assessment fees?

4 A: The OCC assessment fee is the annual level of Commission funding authorized
5 by Oklahoma statute, which is allocated to and collected from Oklahoma
6 Natural's customers. The methodology for regulatory treatment of the OCC
7 assessment revenue was approved by the Commission in Cause No. RM 93-
8 083. The revenues collected through this fee are independent of and not
9 included within base rates. Therefore, Adjustment R-5 is necessary to remove
10 the OCC assessment fee revenues.

11 Q. Will there be a corresponding adjustment for the expense related to the OCC
12 assessment fee?

13 A. No, as part of the Joint Stipulation in Cause No. PUD 200800348, the parties
14 agreed to eliminate the assessment fee rider and incorporate and recover this
15 expense within base rates.

16
17 **EFM EQUIPMENT FEE REVENUE**

18 Q. Please describe the adjustment R-6, involving Electronic Flow Measurement
19 (EFM) equipment fees.

20 A. In 2003, Oklahoma Natural was authorized by the Commission to lower the
21 minimum transportation threshold by Order No. 475535 in Cause No. PUD
22 200300075. Currently, any customer with annual usage greater than 1,000 Dths
23 is able to transport. Many of the Company's customers have taken advantage of
24 this option and have migrated from the 200-LCI sales tariff to the 255-T

1 transportation tariff. One of the conditions of migrating to this tariff is that the
2 customer installs EFM equipment to ensure accurate monitoring of the gas
3 nominated and the actual gas flow. Currently, Tariffs 255-T and 655-T provide
4 for an EFM equipment fee of \$1,116 per customer. In the test year, we installed
5 approximately 488 EFM's and collected \$544,608 in EFM equipment fees from
6 these customers. These initial charges will not be charged to customers on a
7 going forward basis and therefore \$544,608 needs to be removed for the
8 purpose of calculating Oklahoma Natural's revenue requirement. The Company
9 has not removed the recurring O&M charges collected each month from these
10 customers for maintenance of the equipment, as these charges will continue.

11
12 **REVENUES ASSOCIATED WITH REIMBURSEABLE PROJECTS**

13 Q. Please describe R-15, the revenue adjustment associated with reimbursable
14 projects.

15 A. Oklahoma Natural amortizes to income over a 5-year period contributions due to
16 pipeline relocation and other special reimbursements, thereby reducing utility
17 revenue requirements. Although the Commission has previously declined to
18 allow a rate base return on highway relocation revenues (Order No. 388124 in
19 Cause No. PUD 9100001190), the Commission has allowed the Company to
20 normalize highway reimbursable income for a 5-year normalized period. Pro-
21 forma adjustment R-15 makes the adjustment as required by this Commission
22 Order. The total adjustment to utility operating income is \$1,655,704, which is a
23 summation of several adjustments relating to the distribution and transmission

1 systems. They are discussed in detail at Section H, Workpaper H-2-15, of the
2 Application Package filed in this Cause.

3
4 **AD VALOREM TAXES**

5 Q. Please describe adjustments E-13 and E-14, the expense adjustments for ad
6 valorem taxes and the methodology behind these adjustments.

7 A. Oklahoma Natural accrues ad valorem taxes based upon estimates made by the
8 Company's Property Tax Department. This amount is trued-up when actual
9 payments are made semi-annually to the Oklahoma Tax Commission. In the test
10 year, the total accruals were \$13,442,638. The pro-forma adjustment to
11 calculate ad valorem taxes was developed using methodology adopted by the
12 Administrative Law Judge and approved by the Commission in the Company's
13 last general rate change filing Cause No. PUD 200400610. The actual accrual
14 used for 2009 is \$1,191,238 per month for January through April and \$1,237,083
15 per month for May through December resulting in an annual accrual of
16 \$14,661,616. This accrual is then reduced by the deferred IMP ad valorem
17 credits totaling \$8,790 for the test year. The resulting net accrual of \$14,651,826
18 is the actual amount of ad valorem tax the Company will accrue for the year 2009
19 and represents the Company's best estimate of its actual expenditure for these
20 costs. The difference between the amounts accrued in the test year and the
21 calculated estimate of ad valorem taxes for 2009 is \$1,210,188 – pro-forma
22 adjustment E-13.

1 A separate adjustment to reverse a test year accrual (credit) that was specific to
2 the years of 2004, 2005, and 2006 is included as pro forma adjustment E-14 in
3 the amount of \$1,353,774.

4
5 **TAXES OTHER THAN INCOME TAXES**

6 Q. Please describe E-16, the expense adjustment for taxes other than income tax.

7 A. Taxes other than income taxes are required to be listed as a summary schedule
8 by type and account number on Workpaper H-18. This summary excludes
9 payroll and payroll related accounts and ad valorem taxes because each of these
10 tax categories is reported on Workpapers H-5 and H-19 respectively.

11
12 The test year includes prior period adjustments (non-test year related expense)
13 totaling \$62,816. The purpose of pro-forma adjustment E-16 is to remove this
14 amount from expense.

15
16 **INTEREST ON CUSTOMER DEPOSITS**

17 Q. Ms. Carter, why is it necessary to make an adjustment for the interest Oklahoma
18 Natural pays on customer deposits?

19 A. Oklahoma Natural is required by Commission rule to pay interest on the deposits
20 it receives from customers. Unlike the deposits themselves, which are
21 recognized as a source of non-investor supplied capital and are removed from
22 rate base, the interest the Company pays on the deposits is a legitimate cost of
23 operating the business. Oklahoma Natural's cost of service must therefore
24 reflect this interest as an operating cost. Pro-forma adjustment E-17 in the

1 amount of \$464,773 is necessary to reflect the total interest expense on the long
2 and short term customer deposits held by the Company.

3
4 **LEASE EXPENSE**

5 Q. Please explain the adjustment for lease expense, E-19.

6 A. Oklahoma Natural has made some modifications in the level of expense that it
7 incurred in the test year associated with leased vehicles. Changes in leasing
8 terms have been considered and the effect of these changes is reflected by
9 annualizing the January 2009 level of lease expense. The result is a reduction
10 (adjustment E-19) of \$784,107 to the test year level of vehicle lease expense.

11
12 **POSTAGE EXPENSE**

13 Q. Please discuss pro-forma adjustment E-21.

14 A. This adjustment is necessary to reflect the appropriate level of postage expense
15 and contains two subparts.

16
17 The first element of this adjustment is to reflect an increase in postage expense
18 of \$95,325 and is associated with a test year increase in mailing expense due to
19 the United States Postal Service price increases effective on May 12, 2008 and a
20 new Company collection process that was initiated in mid January 2009.

21
22 The second element of this adjustment in the amount of \$139,942 is necessary
23 to capture the appropriate level of postage expense on a going forward basis to
24 accommodate an increase in mailing expense due to the United States Postal

1 Service price increases effective on May 11, 2009. The result of this adjustment
2 (E-21) is a total increase of \$235,268 to test year expense.

3 Q. Ms. Carter, does this conclude your testimony?

4 A. Yes, it does.