

**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

ROGER MITCHELL

ON BEHALF OF

OKLAHOMA NATURAL GAS

JUNE 26, 2009

1 Q. Please state your name.

2 A. My name is Roger Mitchell.

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

4 A. I am the President of Oklahoma Natural Gas Company ("Oklahoma Natural," or  
5 the "Company").

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

7 A. I graduated from the University of Oklahoma with a Bachelor of Arts degree in  
8 journalism as well as from the University of Colorado Executive Development  
9 Program. I have served on the board of directors of the Greater Oklahoma City  
10 Chamber of Commerce, The Oklahoma State Chamber, United Way of Central  
11 Oklahoma, YMCA of Greater Oklahoma City and as Chairman of the Austin  
12 Chamber of Commerce for 2007. I currently serve on the Southern Gas  
13 Association and Allied Arts of Oklahoma City Boards of Directors and am a  
14 member of the American Gas Association and the Oklahoma and Texas Gas  
15 Associations. I have been employed in the natural gas business since 1978 and  
16 was the president of Texas Gas Service, another ONEOK division for over five  
17 years before assuming my current position in July 2008.

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

19 A. The purpose of my testimony is to discuss the framework of Oklahoma Natural's  
20 request for rate relief and various policy changes in the Cause including the  
21 migration to performance based rates. It is important at the outset to note that  
22 since 1906, Oklahoma Natural has been a crucial and cooperative partner in  
23 promoting this state's economic growth. Oklahoma Natural provides vital energy

1 service to 80 percent of Oklahoma and does it with unsurpassed reliability and  
2 safety. In short, Oklahoma Natural is an Oklahoma-based company with a  
3 legacy of providing value to our fellow Oklahomans.

4 Q. How long has it been since the Company was last authorized by the Commission  
5 to increase its rates for utility service?

6 A. Oklahoma Natural has not had an increase in its base rates since October 2005,  
7 approximately 4 years ago. Our last rate review was based upon a test year  
8 ending in July 2004.

9 Q. Has Oklahoma Natural faced challenges since the Company's last rate review?

10 A. Yes and I believe that we have effectively met those challenges. We have been  
11 able to do this through our commitment in maintaining, improving and expanding  
12 the extensive infrastructure that makes Oklahoma Natural's utility service  
13 accessible to Oklahomans. In the years since that proceeding, the Company has  
14 been challenged to change structurally, adapt to a whole new energy landscape,  
15 and operate more efficiently and effectively, all while continuing to provide  
16 superior service. This superior service can be evidenced by a reduction in  
17 customer complaints, a current customer call answer rate of 97.6%, and a  
18 system reliability rate in excess of 98%.

19 Q. Please identify the key financial drivers of the current Cause.

20 A. There are two key financial drivers behind the current Cause. Since July 2004,  
21 the test year-end associated with the Company's current rates, Oklahoma  
22 Natural has made substantial un-recovered investments in the Company's plant

1 assets to provide safe and reliable service and has incurred substantial un-  
2 recovered annual non-gas operating expense increases.

3 Q. How much additional investment in rate base has Oklahoma Natural made since  
4 July 2004?

5 A. The Company's additional investment in rate base is more than \$162 million.  
6 This represents an investment increase of more than 27 percent since the  
7 Company's current base rates were established. Not only has Oklahoma Natural  
8 assumed the cost of supporting this additional investment over the past five  
9 years, but the Company's annual unrecovered non-gas operating expenses have  
10 also increased by approximately \$63 million since current rates were set.

11 Q. Are there other financial drivers that make a rate review necessary at this point?

12 A. As the Commission is aware, energy efficiency and conservation are goals that  
13 have been identified for legislative and rule-based measures on the state and  
14 federal level. Oklahoma Natural has been supportive of these measures  
15 because they are attempts to advance the public good and are in the best  
16 interest of our customers. At the same time, Oklahoma Natural must react to the  
17 effects these types of measures have on its business. As energy usage declines  
18 we must develop different methods of cost recovery to continue to work toward  
19 the fairest way to charge the users of our system. The proposed rate design is a  
20 step toward that goal of fundamental fairness. We believe it provides the right  
21 balance of supporting conservation measures and ensuring that gas service  
22 remains affordable to those who use only a limited amount of natural gas.

1 Similarly, infrastructure security continues to be a national goal. As Oklahoma  
2 Natural makes the investments necessary to protect important infrastructure, it  
3 must be permitted to recover these costs advanced on behalf of the public. The  
4 integration of our Integrity Management Program into base rates allows us to do  
5 just that.

6 Q. What is Oklahoma Natural requesting in the way of additional revenue  
7 requirements in this Cause?

8 A. The Company seeks authorization for a net increase of \$37.6 million. This  
9 represents an increase in base rates of \$66 million (inclusive of \$25.5 million of  
10 Federal and State Income Taxes) that is partially offset by the elimination of  
11 various riders that currently impose charges on our customers above and in  
12 addition to base rates. The current decline in the price of natural gas should  
13 further offset this increase in base rates. Moreover, we hope to operate more  
14 efficiently in the future so that we can pass through to our customers applicable  
15 savings through the newly adopted Performance Based Rate Change tariff. The  
16 requested increase will provide Oklahoma Natural with an opportunity to earn a  
17 fair, just, and reasonable rate of return on the Company's current rate base.

18 Q. Mr. Mitchell, what is the Company proposing in this Cause as a means to help  
19 customers manage their utility costs?

20 A. Like the Commission, Oklahoma Natural has long been an advocate in providing  
21 choices for our customers in an effort to allow them as many tools as possible to  
22 manage their utility expenses. In this Application, we propose to continue to  
23 build upon the innovative rate design approved in our last general rate change

1 Application that provides a two-tiered tariff for general residential customers, as  
2 well as for those business customers who purchase their gas from the Company.  
3 We hope the Commission continues to be receptive to this unique rate proposal,  
4 as Oklahoma Natural believes these two-tiered tariffs are beneficial to its  
5 customers. It should also be noted that the Company continues to support a  
6 special low income residential tariff as well as the voluntary fixed price program.

7 Q. What makes these proposed tariffs unique?

8 A. Oklahoma Natural's customers are diverse in their energy usage characteristics.  
9 The tariffs we are proposing in this Cause offer customers the ability to match  
10 their individual usage patterns to one of two tariff rate choices. More specifically,  
11 customers who use lower volumes of natural gas may choose to pay a lower  
12 monthly service charge coupled with a per-dekatherm delivery charge. Larger  
13 consumers of gas may choose a higher monthly service charge in conjunction  
14 with no delivery charge. The tariffs are discussed in much more detail by  
15 Oklahoma Natural witness, Mr. Paul Raab.

16 Q. Does the Company's filing contain other innovative proposals?

17 A. Yes, it does. The Company's filing contains a migration from a traditional rate  
18 structure to performance based rates ("PBRC"). This migration will allow  
19 Oklahoma Natural to share efficiency savings with its customers and eliminates  
20 the need for multiple tariff filings and will therefore save our customers the cost of  
21 such frequent filings. It should also be noted that the PBRC will provide timely  
22 Commission oversight of the Company's capital investment decisions. The

1 migration to PBRC will be discussed in greater detail by Oklahoma Natural  
2 witness, Mr. David Scalf.

3 Q: Has the Oklahoma Corporation Commission ("OCC") endorsed PBRCs?

4 A. Yes they have. The OCC has currently approved PBRCs for three natural gas  
5 utilities. This endorsement is consistent with a national trend in the United States  
6 towards innovating ratemaking mechanisms as these mechanisms (including the  
7 Company's PBRC) remove the volatility in customer's base rates from year to  
8 year. These mechanisms further eliminate the potential for customer rate shock  
9 that can occur with infrequent yet large base rate increases.

10 Q. Mr. Mitchell do you have any concluding remarks?

11 A. Yes, I do. While the Company is seeking a base rate increase in order to have  
12 an opportunity to earn a fair, just, and reasonable rate of return, it should be  
13 recognized that Oklahoma Natural's financial commitment to its customers has  
14 also grown by more than \$162 million since the Company last received a base  
15 rate adjustment. Granting the recovery requested as outlined within the  
16 Company's current filing will assure that Oklahoma Natural is positioned to  
17 continue to provide the high level of value and reliability that its customers expect  
18 today and into the future.

19 Q. Mr. Mitchell, does this conclude your direct testimony?

20 A. Yes, it does.