Exhibit No.:	
Issues:	Transport Rate Design
Witness:	Michael J. Ensrud
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	GR-2009-0434
Date Testimony Prepared:	December 29, 2009

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

EMPIRE DISTRICT GAS COMPANY

CASE NO. GR-2009-0434

Jefferson City, Missouri
December 2009

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Missouri Service Area of the Company.	))))))	Case No. GR-2009-0434

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 10 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud
Michael J. Ensrud

Subscribed and sworn to before me this 29th day of December, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

EMPIRE DISTRICT GAS COMPANY

CASE NO. GR-2009-0434

Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same witness who submitted information in the Staff's Class Cost of Service and Rate Design Report (Staff Report) addressing Empire District Gas Company's (EDG's or Company's) transportation tariff and miscellaneous charges?

A. Yes. I am.

Q. What is the purpose of your Surrebuttal Testimony?

A. I will respond to the Rebuttal Testimonies of Richard Haubensak (Constellation), Wendi Brown (Constellation), and W. Scott Keith (EDG).

Q. Does Staff agree, in general, with Ms. Brown's Rebuttal Testimony?

A. No. Specifically, Staff disagrees with some of the ways Constellation witness Wendi Brown portrays the following:

1) The commodity transactions that occur when a transport customer is either long or short on a monthly basis;

2) The transaction that would occur under the proposed tariffs when a transport customer is either long or short on a daily basis; and

3) The causation and recovery of storage costs.

MONTHLY CASH-OUTS

Q. Do you agree with Ms. Brown's following statement?

> Also, Staff has completely ignored the fact that there are currently monthly cash-out provisions in the Empire tariff. If a marketer has delivered more gas into the Empire system than is consumed by the marketer's customers, the marketer is reimbursed for this gas at a rate lower than the current commodity rate on the New York Mercantile Exchange (NYMX). Conversely, if a marketer delivers less gas into the Empire system than is consumed by the marketer's customers, the marketer must reimburse Empire for this gas at a rate higher than the current rate on the NYMX.[1]

A. No. Staff does not ignore the cash-out procedures, but Staff did not find that the cash-out procedures provided adequate cost recovery for costs caused by the transportation customers, at least, not for every possible transaction. Ms. Brown's comments allude to EDG realizing a profit on each cash-out transaction, and she seems to imply that those profits will be a sufficient contribution to recover the cost of storage caused by transportation customers. In some instances, EDG will buy "long" gas from the transport customer, when the Purchased Gas Adjustment (PGA) price is less than the index price, and in some instances EDG will sell "short" gas to cover a transport customer when the PGA price is greater than the index price. In either scenario, the company suffers a loss on the commodity transaction – which will flow into and inflate the PGA rate.

Ms. Brown's example presupposes every sale of a unit of gas is at a premium and every purchase of a unit is at a discount. This is not true in relation to the PGA rate.

Q. Does EDG's proposed tariff contain provisions to "safeguard" (reduce, but not eliminate) PGA customers from experiencing loss stemming from these cash-out transactions?

A. EDG has proposed a dual-indexing approach which will decrease the number of cash-out transactions that negatively impact the PGA rate.

[1] Wendi Brown Rebuttal Testimony (Page 5 – Lines 6 to 13)

Q. Do transport customers have the ability to minimize dual-indexed cash-out transactions?

A. Yes. If the transport customer is diligent about imbalances, the dual-index has minimal impact.

For the gas commodity, the transport customer can over-deliver or under-deliver towards the end of the month in order to counter-balance being "short" or "long" early in the month. The point is the transport customer has the opportunity to rectify imbalance in succeeding days - right up to the end of the month. Therefore, the transport customer has multiple opportunities to achieve month-end "balance" throughout the month - at least, for the gas commodity.

DAILY IMBALANCES AND STORAGE COSTS

Q. On page 2, lines 8 through 13, Constellation witness Ms. Wendi Brown's Rebuttal states the following:

> Starting on page 21, line 9, the Staff report engages in a discussion of how "[t]he cash out process does nothing to recover storage costs incurred due to given daily imbalances, when those imbalances are settled up….**Currently, storage costs are assigned 100% to EDG's firm customers, even though transport customers are also causing EDG to incur some of these costs**… **(Emphasis Added).**
>
> Do you agree?

A. Ms. Brown is correct in pointing out that not 100% of the storage charges are paid by the PGA customer. The class of Small-Volume customers does make a contribution. For Large-Volume transport customers, my statement in the section of the Report is correct.

They pay nothing for storage services. The current Balancing Fee is only applicable to the Small-Volume class of transport customers[2].

Q. Should costs caused by transportation customers be recovered from the customer or class causing those costs to be incurred by EDG?

A. Yes. Costs should be recovered from the class causing those costs to be incurred. If costs are caused by specific customers and it is possible and feasible to assign those costs to those customers, a specific customer allocation is preferred.

Q. Does EDG currently have a method for allocating some costs to transportation customers that transportation customers cause EDG to incur?

A. Yes, it does. But EDG's proposed application of a Daily Charge would result in a more accurate method of allocation (for storage costs) than the existing Balancing Fee.

Q. Why is the Daily Charge cost-recovery methodology more accurate than recovery through the existing Balancing Fee?

A. The Daily Charge uses a criterion for recovering storage costs that reflects those costs incurred by EDG as a result of transportation customers' daily imbalances. While the Balancing Fee does generate recovery monies, there is a disconnection between the way those costs are generated and how those costs are recovered. The Balancing Fee applies a surcharge to the raw volume of gas delivered, not the actual daily level of gas that is in imbalance. This is a mismatch. These injections and withdrawals of gas into pipeline storage are caused by transportation customers being out-of-balance on any particular day.

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[2] See Empire's Tariff P.S.C. MO. No. 2 (Page 44) 1. Balancing Service: "This service is available to end-users under the SVTS rate schedules".

This results in only Small-Volume transport customers – as a class - paying any of the storage costs that are being incurred by either the Small-Volume class or Large–Volume class of transport customers.

Even within the Small-Volume class (the only transport class paying storage) customers who use a lot of gas, but keep those bigger volumes of usage "in balance", pay a disproportional amount of storage costs, than does a customer of Small-Volume class who uses much less gas, but is significantly out-of-balance each and every day. No class of customer (whether Large-Volume or Small-Volume), nor any specific customer can be determined to be proportionately responsible for the system being out-of-balance and the resulting storage costs that was generated by the cumulative daily imbalances. These cost-generating imbalances are not being attributed to a particular class of transport customers being out-of-balance, nor are they attributed to specific transport customers being out-of balance.

Q. Has Staff's investigation of the existing Balancing Fee uncovered any failure to recover the storage costs that transportation customers generate?

A. Yes – to some extent, however, without telemetry equipment it is hard to say for certain exactly how much of the total storage costs are properly assignable to either class of transport customer.

Q. Does Staff agree with W. Scott Keith's statement in his Rebuttal Testimony of the following?

> I have analyzed the underlying costs on Empire's South system; the largest of the three systems Empire operates, and determined that the average cost of no notice service is $0.027 per Ccf versus the $0.025 Ccf requested in Empire's filing. My analysis is based upon the costs (storage and transportation) that were included in Empire's most recent Actual Cost Adjustment filing on October 30, 2009. [3]

[3] Scott Keith Rebuttal Testimony (Page 10 –Lines 7 to 12)

A. Yes. Staff has reviewed these calculations and finds them reasonable for the limited application of the schools that are statutorily exempt from mandatory telemetry.

Q. Why does Staff support the $0.025 per-Ccf Balancing Fee charge for the limited application for schools?

A. It is a better representation of historical costs, of approximately $0.027 per-Ccf, than is the existing $0.0075 per-Ccf rate, and is more consistent with information that is reviewed by Commission's Procurement Analysis Department (PAD).

Q. Does Staff agree with Mr. Haubensak's following statement?

> Q. WHAT IS WRONG WITH THE LOGIC OF **TYING THE CHARGE FOR A BALANCING SERVICE TO THE PROPOSED CHARGE FOR BEING OUT OF BALANCE ON A DAILY BASIS?**
>
> A. … Third, the charge for a small-volume balancing service is going to be assigned to every Ccf of small-volume transportation. … **It is possible that there would be no daily imbalances**. **There is very little correlation between these two charges that justifies one being an extrapolation of the other**. [4]

A. This is an implicit acknowledgement that applying a Balancing Fee to every unit of gas is inappropriate for the recapture of a cost generated only on units of gas that are out-of balance-and, therefore, in need of storage service . The Balancing Fee mechanism - a volumetric rate, based on the total volume of gas commodity transported - is an inappropriate mechanism to capture costs generated by daily imbalances incremental to the total volume being transported.

Also, under the current application of the Balancing Fee, there is no correlation between the specific transportation customer who generates costs and the specific transportation customer who pays the transport costs. This current application almost assures

[4] Richard Haubensak Rebuttal (Page 5 – lines 1 to 13)

that total collections will be either long or short compared to the storage costs generated by the transportation customers in total, because the recovery method is disconnected from the manner in which costs are caused.

Q. How does Staff respond to Mr. Haubensak's complaint that the proposed Balancing Fee is a dramatic increase over the existing rate[5]?

A. Staff's position is the customers causing the costs should be responsible for the costs. The current Balancing Fee mechanism and rate do not cover EDG's costs due to the establishment of the rate over eight years ago.

Q. Do you agree with Ms. Brown's following statement?

> As a result, the LDCs served off this pipeline, like Empire and Missouri Gas Energy; do not have daily balancing requirements. Empire is effectively trying to **establish** daily balancing when it is not required by Southern Star and is not required by other LDCs such as Missouri Gas Energy.[6] **(Emphasis Added)**

A. While true that Missouri Gas Energy (MGE) does not have a Daily Charge, two other Local Distribution Companies (LDCs) within the Commission's jurisdiction do. Staff references the Commission approval of Daily Balancing Charges for Atmos tariff sheet no. 52. Also, AmerenUE has a Daily Balancing Charge on tariff sheet no. 15 of its tariff. Further, it is simply untrue that no Missouri LDC who serves customers off the Southern Star pipeline utilizes a form of Daily Charge. Notably, Atmos' territory includes a portion that is served off the Southern Star Pipe Line[7].

Q. If the Commission rejects the proposed Daily Charge approach, should the Commission expand the applicability of the Balancing Fee to all transport customers?

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[5] Richard Haubensak –Direct Testimony / Page 5 – Lines 18 -20. & Rebuttal Testimony / Page 2 –Lines 14 - 16
[6] Wendi Brown Rebuttal Testimony (Page 3 – Lines 15 to 19)
[7] The towns of Rich –Hill & Hume are served by Atmos via Southern Star Pipe Line.

A. Yes. Even if the Commission rejects EDG's and Staff's recommendation that conversion to Daily Charge is appropriate, at a minimum, the Commission should expand the scope of the balancing fee recovery method to include large-volume classes of transport customers. An attempt to make some recovery (even a flawed one) is generally better than to make no attempt whatsoever. Not requiring the Large-Volume customer class to pay at least something for their storage results in PGA customers paying those storage costs.

Q. Ms. Brown states the following:

> Empire purchases a storage service so that they can store gas for their sales customers to be used in future months. In other words, the primary reason Empire purchases storage capacity is to meet the needs of their sales customers.[8]

Does Staff agree?

A. Staff agrees that EDG purchases storage capacity to meet the needs of their sales customers in future months. However, what Ms. Brown ignores is the fact that transport customers also cause EDG to incur storage costs. Even for storage costs that are "fixed",[9] transport customers should pay their fair share. First, the transport customers are utilizing the facilities in question. Second, the transport customer is enjoying the benefits of "fixed" storage. The transport customer should be asked to recognize the value that they are receiving by using storage, even when their usage generates no incremental costs.

Q. Ms. Brown states the following:

> [Empire] should also insure that transportation customers are assigned all the costs they are putting on the system.[10]

Does Staff agree?

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[8] Wendi Brown Rebuttal Testimony (Page 3 – Lines 1 to 4)
[9] Fixed storage costs do not fluctuate with the volumes of gas going in & coming out of storage.
[10] Wendi Brown Rebuttal Testimony (Page 6 – Lines 4 to 6)

A. Yes. The existing rate (in all likelihood) results in a cross-subsidy that, while benefitting transport customers, results in PGA customers paying for transportation customers' generation of storage costs. That is why Staff recommends that the Commission adopt the Daily Charge for the vast majority of transport customers, and adopt a cost-based Balancing Fee for schools

Q. Do you agree with Constellation's criticism[11] of Staff's inattention to the costs supporting the Balancing Fee rate?

A. No. Constellation references Staff's inattention to cost support for the increase in the Balancing Fee for the proposed $0.025 per-Ccf rate, but says little about the $0.125 per Ccf Daily Charge being proposed. An EDG study was reviewed by the Staff and was determined to be a reasonable representation of the costs incurred in relation to storing excess gas and injecting gas. Staff received this study early in the case.

Staff agrees with EDG that implementation of the Daily Charge is an improvement over using the current Balancing Fee. Staff would note that Constellation has failed to challenge the validity of the $0.125 per-Ccf rate in any meaningful way.

Q. Constellation witness Mr. Haubensak's makes the following statement:

IS TELEMETRY EQUIPMENT NECESSARY FOR SMALL-VOLUME TRANSPORTATION CUSTOMERS?

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[11] Richard Haubensak –Rebuttal Testimony (Page 2 – Lines 8 – 10). & Rebuttal Testimony (Page 4 – Lines 19 - 22

> EDG has priced its proposed school-only balancing service at $0.025 per Ccf….According to EDG, the current charge of $0.0075 per Ccf does not cover the value of this transportation and storage service. EDG offers the justification that the proposed fee of $0.025 per Ccf represents 20 percent of the proposed Daily Charge of $.125 per Ccf….Staff considers this analysis reasonable….

> No cost study has been offered or cited by Empire or Staff in this case supporting and justifying Empire's proposed $0.025 per Ccf balancing charge. And there is no evidence that any audit or cost study was performed by Staff before concluding that Empire's proposals were "reasonable."

> No, it is not. As I explained in my direct testimony, on page 6, "Small volume customers, including those on the school program, have been eligible for transportation service since 2001 with no requirement for telemetry equipment." The usage of small-volume customers is so predictable that telemetry equipment is not necessary to predict the daily consumption by customer[12].

Does Staff agree?

A. No. The best indicator of storage costs incurred on behalf of transport customers is the amount of variation between the **daily** nomination and the **daily** gas delivered on a customer specific basis. Further, if Mr. Haubensak's statement about "usage of Small-Volume customers is so predictable that telemetry equipment is not necessary to predict the daily consumption by customer" were true, conversion to a Daily Charge should provide an excellent opportunity to reduce the transportation customer's storage costs to zero – after initially paying for the telemetry equipment The transportation customer only needs to keep their daily variances within the 10% tolerance level to avoid incurring the $0.125 per-Ccf Daily Charge. While day-in / day-out exact matching of nomination to deliveries may be impossible, staying with a 10% tolerance is not, and each specific transport customer is held responsible for any failure to maintain daily balance.

Q. Does this conclude your testimony?

A. Yes, it does.

[12] Richard Haubensak –Rebuttal Testimony (Page 2 – Lines 17 & 18 through Page 3 – Lines 1 to 6)