EXHIBIT

Exhibit No.: 211 NP

Issue(s):	Capacity Release Off-System Sales Revenues
Witness/Type of Exhibit:	Busch/Direct
Sponsoring Party:	Public Counsel
Case No.:	GR-2004-0209

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Missouri Public Service Commission

DIRECT TESTIMONY

OF

JAMES A. BUSCH

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

April 15, 2004

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's tariffs to implement a general rate increase for natural gas service.	)))	Case No. GR-2004-0209

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI	)	
	)	ss
COUNTY OF COLE	)	

James A. Busch, of lawful age and being first duly sworn, deposes and states:

1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 11 and Schedules JAB-1 and JAB-2.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

James A. Busch

Subscribed and sworn to me this 15th day of April 2004.

BONNIE S. HOWARD
MY COMMISSION EXPIRES
NOTARY SEAL
NOTARY PUBLIC
COUNTY OF MONITEAU
STATE OF MISSOURI

Bonnie S. Howard, Notary Public

My commission expires May 3, 2005.

DIRECT TESTIMONY

OF

JAMES A. BUSCH

CASE NO. GR-2004-0209

MISSOURI GAS ENERGY

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 2230, Jefferson City, MO 65102.

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

A. I am a Public Utility Economist with the Missouri Office of the Public Counsel (Public Counsel).

Q. Please describe your educational and professional background.

A. In June 1993, I received a Bachelor of Science degree in Economics from Southern Illinois University at Edwardsville (SIUE), Edwardsville, Illinois. In May 1995, I received a Master of Science degree in Economics, also from SIUE. Prior to joining Public Counsel, I worked for just over two years with the Missouri Public Service Commission as a Regulatory Economist in the Procurement Analysis Department and worked one year with the Missouri Department of Economic Development as a Research Analyst. I accepted my current position with Public Counsel in September 1999. Furthermore, I am currently a member of the Adjunct Faculty of Columbia College, Jefferson City

Campus, teaching Managerial Economics in the MBA program and undergraduate Microeconomics and Macroeconomics.

Q. Have you previously testified before this Commission?

A. Yes. Attached is Schedule JAB-1, which is a list of the cases in which I have filed testimony before this Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Public Counsel's recommendation for off-system sales and capacity release revenues for Missouri Gas Energy (MGE or Company). Also, I will make recommendations regarding proposed changes to MGE's current tariffs.

Q. How is your testimony organized?

A. First, I will give a brief history of the treatment of capacity release/off-system sales revenues in Missouri. Second, I will provide Public Counsel's recommendation regarding the appropriate amount of capacity release revenues and off-system sales that should be included in revenues in this case. Finally, I will provide Public Counsel's recommendation regarding certain changes to MGE's currently effective tariffs.

INTRODUCTION

Brief History of Capacity Release and Off-System Sales

Q. Please briefly explain capacity release.

A. Capacity release provides owners of interstate pipeline capacity (in this case Local Distribution Companies (LDCs)) the ability to release unutilized capacity and receive revenues to mitigate pipeline reservation charges. Capacity release was implemented by the Federal Energy Regulatory Commission (FERC) as a result of FERC Order No. 636. When a LDC purchases pipeline capacity it is reserving sufficient capacity to meet the maximum demand for natural gas service. However, due to variations in service requirements, the LDC's contractual capacity is not fully utilized at all times. Whenever the LDC's system needs are less than the amount of capacity the LDC has reserved on the pipeline, the LDC has excess capacity available to release to the market.

Q. How were capacity release revenues treated by MGE prior to Case No. GR-2001-292?

A. MGE was allowed to keep certain capacity release revenues under an Experimental Gas Cost Incentive Mechanism (EGCIM), approved in Case No. GO-94-318 Phase II. Under the EGCIM, MGE was able to keep a percentage of the capacity release revenues it generated from releasing excess capacity to third parties. This revenue percentage was based on the following sharing grid:

Capacity Release Amount	MGE's Percentage
First $200,000	50%
Next $200,000	40%
Next $200,000	30%
Next $200,000	20%
Amounts over $800,000	10%

Q. How did MGE's experimental GSIP evolve over time?

A. The original GSIP approved in GO-94-318 Phase II expired on June 30, 1999. A subsequent filing by MGE to extend the program was denied by the Commission in Case No. GO-99-591. Then, in September of 1999, MGE filed to only extend the capacity release component of the GSIP. The Commission in Case No. GO-2000-231 approved this request, effective October 14, 1999. This extension kept the capacity release-sharing grid the same as the previous grid. However, it did not include a gas procurement component. In April of 2000, MGE, Staff, and Public Counsel filed an amended Unanimous Stipulation and Agreement that proposed a fixed rate incentive plan for procuring natural gas. The Unanimous Stipulation and Agreement also modified the capacity release-sharing grid and created an off-system sales component. The Commission approved the Unanimous Stipulation and Agreement in Case No. GO-2000-705 with an effective date of August 31, 2000.

Q. Please explain off-system sales.

A. Off-system sales are sales of a company's supply of natural gas to another party that is not a customer of the company making the sale. Off-system sales are usually bundled with the sale of excess pipeline capacity.

Q. How long was this new capacity release/off-system sales mechanism in effect?

A. The capacity release component was in effect for two years after approval of the Stipulation and Agreement in Case No. GO-2000-705 by the Commission. The Stipulation and Agreement was approved by the Commission with an effective date of August 31, 2000.

Q. How was the capacity release-sharing grid modified?

A. The grid was modified to allow the Company to receive a smaller profit percentage from the initial levels of capacity release and a larger profit percentage as the level of capacity release revenues increased. The new grid was structured as follows:

Capacity Release Amount	MGE's Percentage
First $300,000	15%
Next $300,000	20%
Next $300,000	25%
Amounts over $900,000	30%

Q. Please explain the off-system sales component.

A. According to the tariffs approved in Case No. GO-2000-705, MGE was allowed to retain all revenues derived from the off-system sale of natural gas that exceeded $100,000 per year net of sales that incurred at a loss (P.S.C. Mo. No. 1, Sheet 24.28).

Q. Has the Commission ever decided that capacity release revenues and off-system sales should be included in base rates?

A. Yes. In Case No. GT-99-303, the Commission ordered that Laclede Gas Company's off-system sales, but not capacity release revenues, should be included in the development of non-gas rates.

Q. What is the current treatment of capacity release revenues in MGE's non-gas rates?

A. Pursuant to the Stipulation and Agreement approved by the Commission in Case No. GR-2001-292, capacity release revenues were included in MGE's revenue requirement for use in the determination of MGE's non-gas rates in that same case.

Q. What is the current treatment of off-system sales revenues in MGE's non-gas rates?

A. Pursuant to the same Stipulation and Agreement in Case No. GR-2001-292, off-system sales revenues were included in MGE's revenue requirement for use in the determination of MGE's non-gas rates in that same case.

Q. With respect to the Stipulation and Agreement, how much revenue was built into MGE's revenue requirement for capacity release and off-system sales revenues?

A. For the purpose of setting rates in Case No. GR-2001-292, an amount of $1,200,000 was included in the revenue requirement for off-system sales and capacity release revenues.

Q. In this proceeding, Case No. GR-2004-0209, what was the revenue amount MGE used for capacity release and off-system sales in its calculated revenue requirement?

A. MGE did not include any amount for capacity release or off-system sales revenues in the revenue requirement calculation in its direct filing.

Q. Is MGE still releasing capacity?

A. Yes.

Q. Is MGE still making off-system sales?

A. Yes. However, the level of activity in the off-system sales market has declined significantly.

Reason for including Capacity Release and Off-system Sales in the Development of Revenue Requirement

Q. Why does Public Counsel believe that both components should be included in the development of revenue requirement?

A. Public Counsel believes that the revenues associated with these two activities should be considered in establishing the revenue requirement because the actions involved by the Company to participate in capacity release transactions and off-system sales are a normal part of its everyday business activities. Including off-system sales and capacity release revenues in the determination of revenue requirement provides a reasonable balance between Company and ratepayers interests. Further, the personnel, equipment, and other resources used to obtain revenues from capacity release and off-system sales are recovered from ratepayers in non-gas rates so the revenues from any capacity release and off-system sales activity should be credited to ratepayers in base rates in order to offset these costs. Also, Public Counsel believes that these two functions are interdependent and should not be treated differently.

Q. Please explain why Public Counsel believes these activities are a normal part of the Company's business decisions.

A. As I stated earlier, the Company has excess capacity at various times. Excess capacity occurs because the Company must secure enough capacity to meet peak demand periods. When demand is not peaking, the Company has excess capacity that it can release to the market to generate additional revenue. The same is true with off-system sales. More natural gas may be nominated or reserved than is needed due to changes in the weather or other factors. MGE can create additional revenues by selling this excess natural gas to third parties that are not a part of its system. Therefore, Public Counsel believes that just like other revenues that the Company receives, appropriate regulatory treatment requires that a normalized amount of capacity release and off-system sales revenues should be credited to MGE's revenue requirement to determine the appropriate rates to charge its ratepayers.

Q. Please explain why capacity release and off-system sales are interdependent.

A. Capacity release involves the release of unutilized pipeline capacity, while off-system sales usually involves the sale of a bundled package of excess pipeline capacity and natural gas. If a Company is engaging in capacity release, off-system sales generally will be lower. Conversely, if a Company escalates its off-system sales, it will generally have less capacity available for release. Separate ratemaking treatment for these two activities will provide the Company with an incentive to engage in one type of activity over the other. The decision to offer one over the other will be based on whichever activity will provide the Company and its shareholders with the most profit. Treating these two activities in the manner recommended by Public Counsel mitigates such incentive.

PUBLIC COUNSEL'S RECOMMENDATION

Q. What is Public Counsel's recommendation in this case?

A. Consistent with our recommendation in Case No. 2001-292, Public Counsel recommends that capacity release and off-system sales should be treated as a normalized revenue stream in a general rate case proceeding.

Q. What is Public Counsel's recommendation regarding the appropriate level of off-system sales and capacity release revenues to include in the Company's revenue requirement?

A. The Commission should establish a combined amount of capacity release revenues and off-system sales as revenues. Consistent with the treatment of other test year revenues in a rate case, once the Company attained those levels, the Company would receive 100% of the revenues above the baseline amount. If the Company does not attain those levels, it would incur a financial detriment, holding all other factors constant. In subsequent rate cases, capacity release revenues and off-system sales would be reviewed to determine the new baseline amount that should be included in revenues.

Q. What amount does Public Counsel recommend to include in this rate case as an appropriate baseline?

A. Public Counsel recommends including ** _________ ** for an appropriate combined level of off-system sales and capacity release revenues.

Q. How did you arrive at this amount?

A. I analyzed MGE's capacity release revenues and off-system sales revenues for the three-year period beginning January 2001 and ending December 2003. I took a monthly average for each month based upon this analysis and calculated the appropriate amount of capacity release and off-system sales revenues that should be included as an additional revenue source in this proceeding. Attached is Schedule JAB-2 that shows my calculation of this appropriate amount.

Q. MGE currently releases capacity to various school districts through the Experimental School Transportation Program. Does your calculation include those revenues?

A. No. My calculation removes any revenues collected by MGE due to a capacity release to a qualified school district consistent with its currently effective tariffs.

TARIFF CHANGES

Q. What changes is Public Counsel proposing to MGE's currently effective tariffs?

A. In MGE's Purchased Gas Cost Adjustment section of its tariffs, sheets 14 – 24.7 of P.S.C. MO. No. 1, MGE has various references to its expired Experimental Gas Cost Incentive Mechanism (EGCIM) and its expired Price Stabilization Charge. Any references to these two programs should be deleted from MGE's tariffs. Further, the removal of EGCIM language would cause the complete deletion of P.S.C. MO. No.1 Third Revised Sheet No 24.2, P.S.C. MO. No.1 Second Revised Sheet No. 24.3, P.S.C. MO. No. 1 Second Revised Sheet No. 24.4, and P.S.C. MO. No. 1 First Revised Sheet No. 24.5, all under Section IX. Experimental Gas Cost Incentive Mechanism. Also, Section X. Experimental Price Stabilization Fund found on P.S.C. MO. No. 1 Fourth Revised Sheet No. 24.6 would also be completely deleted in its entirety.

Q. Are there any other sheets that should be deleted?

A. Yes. Sheets No. 24.8 – 24.31 should also be deleted in their entirety. These sheets reference MGE's Fixed Commodity Price PGA, which has expired.

Q. Are there any other changes that should be made to MGE's tariffs?

A. Yes. In Case No. GO-2002-452, (In the Matter of the Review of the Purchased Gas Adjustment Clauses in the Tariffs of Local Distribution Companies), it was agreed to by the parties, and approved by the Commission, in that case to change the language regarding the factors used to calculate PGA rates, number of filings, removing the Deferred Carrying Cost Balance, among other items. Currently, MGE's tariffs do not reflect these changes. In this proceeding, MGE should be ordered by the Commission to make the appropriate changes in its tariffs that were agreed upon in Case No. GO-2002-452.

SUMMARY

Q. Please summarize your testimony?

A. Public Counsel is recommending including a combined amount of capacity release revenues and off-system sales revenues in developing MGE's non-gas rates. This amount is ** _________ ** Public Counsel believes that these two components belong in a rate case, and that capacity release and off-system sales are interdependent. Public Counsel believes that the two components and their associated revenue streams need to be treated in the same manner. Also, Public Counsel is recommending that MGE's tariffs be changed to reflect the fact that certain experimental programs are no longer effective and references to them should be deleted from its tariffs.

Q. Does this conclude your testimony?

A. Yes it does.

Cases of Filed Testimony
James A. Busch

Company	Case No.
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2002-1
Laclede Gas Company	GR-2002-356
Empire District Electric Company	ER-2002-424
Southern Union Company	GM-2003-0238

Aquila, Inc.	EF-2003-0465
Missouri American Water Company	WR-2003-0500
Union Electric Company d/b/a	GR-2003-0571
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072

SCHEDULE JAB-2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.