

Exhibit No.:

Issues: *PGA Process and Deferred
Gas Costs*

Witness: *David M. Sommerer*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Rebuttal Testimony*

Case No.: *EF-2003-0465*

Date Testimony Prepared: *September 10, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

AQUILA, INC.

CASE NO. EF-2003-0465

FILED

DEC 05 2003

MISSOURI PUBLIC SERVICE COMMISSION

Exhibit No. 19
Case No(s) EF-2003-0465
Date 10/20/03 Rptr RC

*Jefferson City, Missouri
September 2003*

****Denotes Highly Confidential Information****

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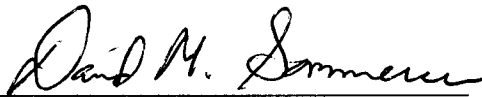
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Aquila, Inc.)
for Authority to Assign, Transfer, Mortgage or)
Encumber Its Franchise, Works or System) Case No. EF-2003-0465

AFFIDAVIT OF DAVID M. SOMMERER

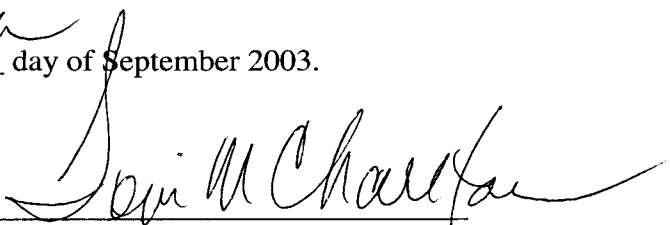
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

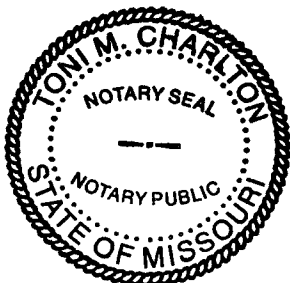
David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the following Rebuttal Testimony were given by him; that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



David M. Sommerer

Subscribed and sworn to before me this 9th day of September 2003.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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DAVID M. SOMMERER
CASE NO. EF-2003-0465

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Rebuttal Testimony of
David M. Sommerer

1 and implementing these audits and trained available Staff on the requirements and
2 conduct of the audits. I participated in most of the ACA audits from early 1988 to early
3 1990. On November 1, 1990, I transferred to the Commission's Energy Department.
4 Until November of 1993, my duties consisted of reviews of various tariff proposals by
5 electric and gas utilities, Purchased Gas Adjustment reviews, and tariff reviews as part of
6 a rate case. In November of 1993, I assumed my present duties of managing a newly
7 created department called the Procurement Analysis Department. This Department was
8 created to more fully address the emerging changes in the gas industry especially as they
9 impacted the utilities' recovery of gas costs. My duties have included managing the five
10 member staff, reviewing ACA audits and recommendations, participating in the gas
11 integrated resource planning project, serving on the gas project team, serving on the
12 natural gas commodity price task force, and participating in matters relating to natural gas
13 service in the State of Missouri.

14 Q. Have you previously testified before this Commission?

15 A. Yes. A list of cases and issues in which I have filed testimony is included
16 as Schedule 1 of my testimony.

17 Q. Did you make an examination and analysis of the books and records of
18 Aquila, Inc. (Aquila or Company) in regard to matters raised in this case?

19 A. Yes. I have examined these records in the context of the issues I am
20 addressing in this case.

21 Q. What matters will you address in your testimony?

22 A. I will review some of the direct impacts of Aquila's creditworthiness on
23 the purchased gas aspects of regulated operations. This includes a description of the

1 Purchased Gas Adjustment (PGA) process, a description of requests by the Company to
2 defer gas costs in prior cases, and a description of the practice of the Company's gas
3 suppliers of ** HC **. I will show that Missouri's PGA process does
4 not inherently require Aquila to have greater working capital requirements; rather,
5 increased working capital needs experienced by Aquila in prior years were the result of
6 the Company's own action and not Missouri's PGA process. Finally, I will show that
7 Aquila's prior under-recoveries will contribute to less, not greater, working capital needs
8 in the future.

9 Q. What knowledge, skill, experience training or education do you have in
10 these matters?

11 A. I have been assigned to and testified in many PGA and ACA proceedings.
12 I have reviewed numerous ACA filings and have evaluated the purchasing practices of
13 various Local Gas Distribution Companies (LDCs) in Missouri. I have also attended
14 conferences and seminars related to the natural gas futures market and other natural gas
15 issues.

16 Q. What is the purpose of your rebuttal testimony in this case?

17 A. The purpose of my testimony is to discuss those items previously
18 mentioned and to rebut certain statements of Company Witness Rick Dobson.

19 Q. What areas of this case have you reviewed?

20 A. Specifically, I have reviewed areas that may be affected by the PGA/ACA
21 process or that could affect the PGA/ACA process.

22 Q. What did you find as a result of your review?

1 A. At a time when Aquila's cash requirements are increased due to the
2 Company's credit rating, the ** HC ** has
3 become an aggravating factor. This is a unique requirement. To my knowledge, ** HC
4 HC **. Schedule RD-3 of
5 Aquila Witness Dobson's testimony indicates that the Company has developed a peak-
6 day methodology for analyzing its cash needs. The development of this analysis was
7 made necessary because the Company no longer has access to the standard lines of credit
8 and commercial paper markets. The Missouri PGA/ACA process generally recognizes
9 and provides for the inevitable differences between PGA estimates and actual gas costs as
10 well as the associated carrying cost. Since the Company has some control over what
11 those PGA estimates are (through a combination of hedging and setting estimates closer
12 to actual costs), the level of under (and over) recovery can be minimized. However, as
13 discussed later in my testimony, under (and over) recoveries are very much impacted by
14 the Company's decisions to defer PGA charges.

15 **PGA/ACA PROCESS**

16 Q. Please describe the Company's historical PGA and ACA process?

17 A. The Company is authorized by tariffs to charge its customers for its cost of
18 gas on an interim subject to review basis. Gas costs generally consist of the gas supply
19 cost paid for the commodity in the production area, the interstate pipeline transportation
20 costs to deliver the gas to the city-gate, and if applicable the interstate pipeline storage
21 costs. The "city-gate" is considered the point of interconnection between the Company's
22 local distribution facilities and the interstate pipeline company. The gas supply itself has

1 been deregulated at the wellhead. The term “wellhead” generally means the place where
2 gas is produced. Interstate pipeline rates are still subject to Federal Energy Regulatory
3 Commission (FERC) regulation. PGA rates are estimates of gas costs, and traditionally
4 have been subject to change at least twice per year through a scheduled summer and
5 winter filing. There is also an unscheduled filing available if there is a significant change
6 in gas costs. These PGA estimates are reconciled on an annual basis to the actual gas
7 costs, which are subject to a prudence review. Any difference between the billed PGA
8 recovery and actual gas costs is refunded back to customers in the case of an over-
9 recovery or charged to customers in the case of an under-recovery, based on their usage
10 in the subsequent year, through an ACA factor.

11 In a related computation, interest is charged to the customer or refunded
12 back to the customer based upon comparison between billed PGA revenue and actual unit
13 costs for gas. This computation is known as the Deferred Carrying Cost Balance
14 (DCCB) provision. That provision was designed to recognize carrying cost impacts due
15 to differences between PGA estimates and actual unit prices for gas.

16 **DEFERRED GAS COSTS**

17 Q. What do mean by deferred gas costs?

18 A. Deferred gas costs are those gas costs on which the Company has chosen
19 to delay recovery from its customers.

20 Q. Has the Company recently deferred gas costs in Missouri?

21 A. Yes. In some instances, the Company chose to temporarily under-recover
22 its actual gas cost until the subsequent ACA reconciliation. As a result the Company’s

1 need for additional working capital increased. Moreover, on February 23, 2001, in Case
2 No. GR-2001-461, the Company's Missouri Public Service (MPS) division filed a motion
3 requesting a waiver and/or variance to discontinue the associated accrual of carrying cost.
4 (See Schedule 2). The Company's tariff normally requires the calculation and
5 accumulation of carrying costs when there is a significant under-recovery of gas costs
6 because of an underestimated PGA rate. The Company stated the following in that
7 motion:

8 In recent months, the natural gas market has taken an
9 unprecedented increase in price. In order to alleviate the impact of
10 these increases on its customers, MPS has up until this time
11 delayed filing for a purchase gas adjustment, as would otherwise
12 be permitted by its tariffs. This delay has enabled MPS's rates to
13 be more stable during the past winter months. This delay,
14 however, has also increased the amount of the under recovery in
15 MPS's Deferred Carrying Cost Balance.

16 Q. What is the effect of these types of voluntary deferrals?

17 A. Not only is the deferred carrying cost balance increased but the overall
18 under-recovery balance in the actual cost adjustment account is increased as well. In
19 other words, the Company is compounding its cash flow needs. As noted earlier, the
20 Company has some control over its PGA estimates (through a combination of hedging
21 and setting estimates closer to actual costs). Therefore, the level of under (and over)
22 recovery can be minimized.

23 Q. In Mr. Dobson's direct testimony on page 12 he discusses the impact of
24 under-recovery of gas costs. Please comment.

25 A. Here it is stated: "In February 2001, Aquila incurred approximately
26 \$116 million of under-recovered gas costs." He goes on to characterize this amount as
27 contributing to an overall liquidity need of \$191 million. However, it should be noted,

Rebuttal Testimony of
David M. Sommerer

1 that this liquidity need is self-imposed by Aquila. As mentioned before, voluntary under-
2 recovery of gas costs was a substantial portion of this under-recovered amount.
3 Moreover, it should be noted that in future periods the recovery of this prior under-
4 recovery will provide excess liquidity as Aquila recovers more cash than it spends on
5 current gas expenditures.

6 ** HC **

7 Q. ** HC

8 HC **?

9 A. ** HC

10 HC

11 HC

12 HC

13 HC

14 HC **

15 Q. ** HC **?

16 A. ** HC

17 HC

18 HC

19 HC

20 HC **.

21 Q. ** HC

22 HC **?

1 A. ** HC _____

2 HC _____ **.

3 Q. ** HC _____ **?

4 A. ** HC _____

5 HC _____

6 HC _____ **.

7 Q. ** HC _____ **?

8 A. The requirement was caused by the downgrading of the Company's credit
9 rating which also greatly reducing Aquila's access to the short-term credit markets. This
10 is clearly indicated in a series of questions and answers from the interviews conducted
11 with Aquila (Interview Tr. pp. 649 - 650).

12 MR. SCHALLENBERG: Okay. And so the two
13 things that in essence impact the US
14 Utilities is, one, after you lose your
15 investment grade status, you now have to pay
16 for things sooner than you did before?

17
18 MR. DOBSON: Yes.

19
20 MR. SCHALLENBERG: And two, you would
21 lose access to short-term capital markets or
22 your lines of credit?

23
24 MR. DOBSON: Correct.

25
26 MR. SCHALLENBERG: And as a result of
27 that, then, you conducted this study to do
28 your assessment as to what the working --
29 maximum working capital needs would be for
30 the US Utilities?

31
32 MR. DOBSON: Correct.

1 Q. Has the Company's peak working capital study been configured in such a
2 way that it produces results that insulate Aquila's ratepayers from the impacts of the
3 Company's lower credit ratings?

4 A. No. The Company's peak working capital study explicitly incorporates
5 the impact of lower credit ratings. As discussed above, the Company admits that the
6 reason that a peak analysis of cash needs is necessary in the first place is due to the lack
7 of access to short-term credit markets. This is clearly indicated in another series of
8 questions and answers from the interviews conducted with Aquila (Interview Tr. pp.
9 613-614).

10 MR. SOMMERER: Has that working capital
11 model been used historically or is that a
12 model that has been developed relatively
13 recently?
14

15 MS. ARMSTRONG: It's been developed
16 since we were not investment grade, because
17 all of the assumptions that are driven in
18 here are what are our working capital
19 requirements for the US Utility in our
20 current operating environment.
21

22 MR. SOMMERER: Traditionally, how did
23 you plan for your working capital needs
24 before you used this model?
25

26 MS. ARMSTRONG: You know, traditionally,
27 it wasn't much of an issue because we had
28 access to the capital, so we tended to focus
29 in terms of what the accounting financial
30 management role was on just tracking the cash
31 flows and looking at the 233 account and
32 managing the allocated capital structure

1 In addition, once that analysis is conducted, ** HC ** heavily
2 influence the derived ** HC ** working capital amount that results from the
3 Company's working capital model.

4 Q. Please summarize your testimony.

5 A. The Company has indicated that a major driver in its need for peak day
6 working capital is a consequence of lagging collections from the PGA clause. The PGA
7 clause itself is a product of the Company's tariffs. PGA rates are estimates based upon
8 the Company's actual gas costs. In the past the Company has purposefully under-
9 collected its PGA but cites this voluntary deferral of gas costs as proof of peak day
10 working capital needs. The Company's unsuccessful activities on the unregulated side
11 of the business have resulted in ** HC ** and lack of access
12 to short-term credit markets on the regulated side of the business. The Company's
13 ** HC ** influence its forecasted peak day working capital
14 requirements, which are also influenced by lower credit ratings. Aquila has overstated its
15 Missouri peak day working capital needs in this application.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes.

LISTING OF CASES IN WHICH TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	ISSUES	CASE NO.
Missouri-American Water Co.	Payroll	WR-85-16
Great River Gas Company	Payroll, Working Capital	GR-85-136
Grand River Mutual Telephone	Cash Working Capital	TR-85-242
Associated Natural Gas Company	Revenues, Gas Cost	GR-86-86
Empire District Electric Company	Revenues	WR-86-151
Grand River Mutual Tel. Company	Plant, Revenues	TR-87-25
Great River Gas Company	Lease application	GM-87-65
KPL Gas Service Company	ACA gas costs	GR-89-48
KPL Gas Service Company	ACA gas costs	GR-90-16
KPL Gas Service Company	Service line replacement	GR-90-50
Associated Natural Gas Company	Payroll	GR-90-152
United Cities Gas Company	PGA tariff	GR-90-233
United Cities Gas Company	PGA tariff	GR-91-249
Laclede Gas Company	PGA tariff	GR-92-165
United Cities Gas Company	PGA tariff, billing adjustments	GR-93-47
Western Resources Inc.	PGA tariff, billing adjustments	GR-93-240
Union Electric Company	ACA gas costs	GR-93-106
Missouri Public Service	Cost of Gas	GA-95-216
Missouri Gas Energy	Incentive Plan	GO-94-318
Missouri Gas Energy	PGA Clause	GO-97-409
United Cities Gas Company	PGA Clause	GO-97-410
Missouri Gas Energy	ACA Gas Costs	GR-96-450
Missouri Gas Energy	Complaint Gas Costs	GC-98-335

COMPANY	ISSUES	CASE NO.
Laclede Gas Company	Price Stabilization	GO-98-484
Laclede Gas Company	PGA clause	GR-98-374
Laclede Gas Company	Complaint PGA	GC-99-121
Laclede Gas Company	Incentive Plan	GT-99-303
Laclede Gas Company	ACA Gas Cost	GR-98-297
Laclede Gas Company	Incentive plan	GT-2001-329
Laclede Gas Company	Price Stabilization	GO-2000-394
Laclede Gas Company	Inventory, Off-System sales	GR-2001-629
Laclede Gas Company	Inventory, Off-System sales	GR-2002-356
Laclede Gas Company	ACA Price Stabilization	GR-2001-387
Laclede Gas Company	Low-Income Program	GT-2003-0117
Missouri Gas Energy	ACA Gas Cost	GR-2001-382
Southern Union	Gas Supply, Pipeline costs	GM-2003-0238

FILED²

FEB 23 2001

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Public Service's)
Purchased Gas Adjustment factors to be reviewed)
in its 2000-2001 Actual Cost Adjustment.)

Case No. GR-2001-461

MOTION FOR WAIVER AND/OR VARIANCE

Comes now UtiliCorp United Inc. ("UtiliCorp") d/b/a Missouri Public Service ("MPS"), in accordance with Commission Rule 4 CSR 240-2.060(14), and as its motion for a one-time waiver and/or variance from the carrying costs identified in MPS's P.S.C. No. 5, 6th Revised Sheet No. 36, states to the Missouri Public Service Commission ("Commission") as follows:

1. UtiliCorp is a Delaware corporation, in good standing in all respects, with its principal office and place of business at 911 Main Street, Suite 3000, Kansas City, Missouri 64105. UtiliCorp is authorized to conduct business in Missouri through its MPS operating division and as such is engaged in providing electrical and natural gas utility service in its service areas subject to the jurisdiction of the Commission. A certified copy of MPS's Certificate of Corporate Good Standing-Foreign Corporation and fictitious name registration as issued by the Secretary of State of the State of Missouri was previously filed with the Commission in Case No. EM-2000-292 and is hereby incorporated by reference in accordance with 4 CSR 240-2.060(1)(G). MPS has no pending action or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates. MPS has no annual report or assessment fees which are overdue.

2. All correspondence, communications, notices, order and decisions of the Commission with respect to this matter should be sent to:

Kent Kopetzky
UtiliCorp United Inc.
1815 Capitol Avenue
Omaha, Nebraska 68102
(402) 492-3432

Dean L. Cooper
BRYDON, SWEARENGEN & ENGLAND P.C.
312 E. Capitol Avenue
P. O. Box 456
Jefferson City, MO 65102
(573) 635-7166
(573) 635-0427 facsimile

3. MPS's P.S.C. Mo. No. 5, 6th Revised Sheet No. 36 requires, in part, that carrying costs equal to simple interest at the prime rate as noted in the Wall Street Journal minus one percentage point be applied to such portion of the Deferred Carrying Cost Balance (whether over-or-under recovered) which exceeds ten percent of MPS's Annual Gas Cost Level for the period such excess balance amounts exist. The resulting carrying costs would then be applied to MPS's actual cost adjustment.

4. In recent months, the natural gas market has taken an unprecedented increase in price. In order to alleviate the impact of these increases on its customers, MPS has up until this time delayed filing for a purchase gas adjustment, as would otherwise be permitted by its tariffs. This delay has enabled MPS's rates to be more stable during the past winter months. This delay, however, has also increased the amount of the under recovery in MPS's Deferred Carrying Cost Balance.

5. Simultaneously with the filing of this Motion for Waiver and/or Variance, MPS has filed P.S.C. Mo. No. 5, 22nd Revised Sheet No. 43; P.S.C. Mo. No. 5, 25th Revised Sheet No. 44; and,

P.S.C. Mo. No. 5, 15th Revised Sheet No. 44.1 as its proposed purchase gas adjustment in order to reflect the impact of the natural gas market and the resulting under recovery.

6. As can be seen by this filing, the carrying cost provision found in it MPS P.S.C. Mo. No. 5, 6th Revised Sheet No. 36 is implicated by MPS's current Deferred Carrying Cost Balance and without further action would require such carrying costs be later added to the rates to be paid by MPS's customers.

7. In order to avoid such result, MPS hereby requests a one time waiver and/or variance from P.S.C. Mo. No. 5, 6th Revised Sheet No. 36 to allow MPS to forego accrual of these carrying costs for a period beginning with such date as the rates in MPS's above filing become effective and ending with such date as changes are made to these rates.

8. Good cause exists for the grant of this variance because it will mitigate the potential impact of MPS's under recovery on MPS's rates.

WHEREFORE, MPS requests a Commission order:

a) granting MPS a one-time waiver and/or variance from accrual of the carrying cost found in P.S.C. Mo. No. 5, 6th Revised Sheet No. 36 for a period beginning with such date as the rates in MPS's referenced purchase gas adjustment filing become effective and ending with such date as changes are made to these rates; and,

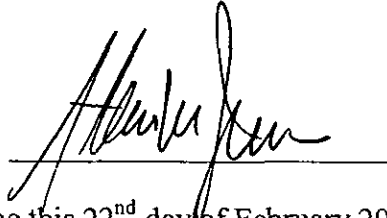
AFFIDAVIT

State of Nebraska)

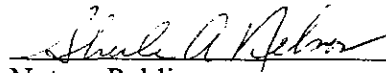
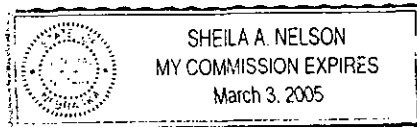
)

County of Douglas)

I, Steven M. Jurek, having been duly sworn upon my oath, state that I am the Vice President, Regulatory Services for UtiliCorp United Inc. d/b/a Missouri Public Service, that I am duly authorized to make this affidavit on behalf of UtiliCorp United Inc. d/b/a Missouri Public Service, and that the matters and things stated in the foregoing application and appendices thereto are true and correct to the best of my information, knowledge and belief.



Subscribed and sworn before me this 22nd day of February 2001.


Notary Public

AQUILA, INC.
CASE NO. EF-2003-0465
DATA REQUEST NO. MPSC-5004

DATE OF REQUEST: June 25, 2003
DATE RECEIVED: June 25, 2003
DATE DUE: July 15, 2003
REQUESTOR: Dave Sommerer

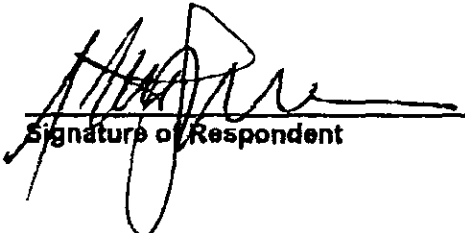
QUESTION:

Please provide a copy of all requests made to regulatory agencies that related to voluntary deferrals of gas costs for the past 3 years.

RESPONSE: Aquila has requested two voluntary deferrals in Missouri during the past 3 years. One of these deferrals occurred in Missouri during the winter of 2000-01. The request was in the form of deferring an underrecovery that could have been included as part of an unscheduled PGA filing. In an attempt to mitigate the impact of high winter period prices on customers, Aquila made the decision to change rates in its routine Summer 2001 filing rather than making an unscheduled filing. Aquila discussed this approach with Missouri Staff at the time. The other deferral was related to the company's Eastern PGA system. Aquila proposed to defer unrecovered PGA costs of approximately \$870,000.

ATTACHMENT: Supporting documents attached.

ANSWERED BY: Steve Jurek


Signature of Respondent

#5004

BEFORE THE PUBLIC SERVICE COMMISSION**OF THE STATE OF MISSOURI**

In the Matter of Missouri Public Service's)
Purchased Gas Adjustment Factors to be)
reviewed in its 1999-2000 Actual Cost)
Adjustment.)

Case No. GR-2000-520

RECOMMENDATION REGARDING**MOTION FOR VARIANCE CONCERNING RECOVERY**

COMES NOW the Staff of the Missouri Public Service Commission and for its recommendation concerning the Motion for Variance Concerning Recovery Period states:

1. On November 6, 2000, UtiliCorp d/b/a Missouri Public Service (MPS) submitted tariff sheets to make scheduled changes to MPS's Purchased Gas Adjustment (PGA) factors because of changes in the estimated cost of natural gas for the upcoming winter season.

2. In its related Motion for Variance Concerning Recovery Period, also filed on November 6, 2000, MPS requested a one-time variance to allow recovery of the current ACA refund balance for the Eastern System over a three-year period rather than the one-year period provided for by MPS's tariff. MPS notes that it makes this request because a three-year recovery period will reduce the immediate impact on customers that would occur if this recovery were to be done over a one-year period.

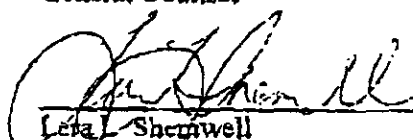
3. The Staff of the Missouri Public Service Commission (Staff) has reviewed the requested variance and the tariff sheets and found that, except for this one-time variance, the tariff sheets are in conformance with the company's PGA clause. Staff recommends that MPS's Motion for Variance Concerning Recovery Period be granted because a three year recovery period, rather than the usual one year recovery period will lessen the impact of such recovery on

customers. Staff does suggest however, that for clarity, the variance be referred to as a "one-time variance."

WHEREFORE Staff recommends that the Commission grant MPS's Motion for Variance Concerning Recovery Period.

Respectfully submitted,

DANA K. JOYCE
General Counsel

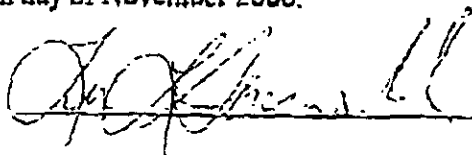


Leta J. Sherrill
Assistant General Counsel
Missouri Bar No. 43792

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7431 (Telephone)
(573) 751-9285 (Fax)

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 17th day of November 2000.



**MISSOURI PUBLIC SERVICE
EASTERN SYSTEM
PROPOSED THREE YEAR RECOVERY**

ACA Balance @8/99	\$ 526,969.90
99-00 Recovery	\$ 332,399.91
Previous year carryover	\$ 194,569.99
99-00 underrecovery	\$ 678,128.99
Total Underrecovery @ 8-00	\$ 872,698.98
 33.3% 3 yr installments	 \$ 290,899.66
 Volumes	 379,065.59
 Recovery/ccf	 \$ 0.07674

Schedule 3

is deemed

Highly Confidential

in its entirety.