

Exhibit No.:
Issues: PGA Costs
- Missouri Public
Service's Eastern District
Witness: Phil S. Lock
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GM-2001-585
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MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

PHIL S. LOCK

FILED
AUG 13 2001
Missouri Public
Service Commission

GATEWAY PIPELINE COMPANY, INC., et al.

CASE NO. GM-2001-585

Jefferson City, Missouri
August 2001

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

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Rebuttal Testimony of
Phil S. Lock

1 A. Yes. I have filed written testimony in Case No. TR-87-25, Grand River
2 Mutual Telephone; Case No. GR-89-48, Kansas Power and Light Company; Case No.
3 GR-90-84, St. Joseph Light and Power Company; Case No. GR-90-152, Associated
4 Natural Gas Company; Case No. GR-92-21, United Cities Gas Company; Case No. GR-
5 92-165, Laclede Gas Company; Case No. GR-93-47, United Cities Gas Company; Case
6 No. GR-93-149, Laclede Gas Company; Case No. GR-94-328, Laclede Gas Company;
7 and Case GA-97-132, Missouri Public Service. I have also prepared numerous Actual
8 Cost Adjustment (ACA) recommendations since 1993.

9 Q. What is the purpose of your rebuttal testimony?

10 A. This case involves the proposed sale by Utilicorp of pipeline assets of
11 Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) to Gateway
12 Pipeline Company, Inc (Gateway). MPC and MGC operate as Utilicorp Pipeline Systems
13 which is a wholly owned subsidiary of Utilicorp. The Staff will address the potential for
14 detriment to customers of Missouri Public Service's (MPS) Eastern District (served by
15 MPC and MGC) if the proposed sale is approved by the Commission.

16 Q. What areas are served in the Eastern District?

17 A. The incorporated areas of Rolla, Salem and Owensville.

18 Q. Will the ownership of the Eastern District distribution system change as a
19 result of the sale?

20 A. No, the Eastern District will continue to be owned and operated by
21 Missouri Public Service, a division of Utilicorp.

22 Q. Does Utilicorp anticipate higher gas rates for its Eastern District customers
23 as a result of this sale?

Rebuttal Testimony of
Phil S. Lock

1 A. This is not certain. Utilicorp did not contemplate rates changing on the
2 distribution systems in the immediate future but did not provide any studies or analysis to
3 support its projections for the immediate future or for the long-term. In notices sent to its
4 customers on MPC and MGC, Utilicorp indicated that the sale would not impact the
5 natural gas service that the customer is currently receiving. The notices, however, did not
6 mention the cost of providing service (See Schedule 1).

7 Q. If the sale were to occur, could this result in increases to the cost of service
8 provided to customers on the Eastern District?

9 A. Yes, the potential is there.

10 Q. In what ways could the cost of service to customers of the Eastern District
11 increase as a result of this sale?

12 A. Before I explain, I will note that my focus will be on the gas cost
13 components for Eastern District customers. Staff believes the Purchased Gas Adjustment
14 (PGA) and Actual Cost Adjustment (ACA) rates could be significantly impacted.

15 Q. Please explain.

16 A. First, I will give some recent history on gas cost recovery rates for the
17 Eastern District. Firm sales customers on the Eastern District had a Net PGA (PGA)
18 factor of \$9.27 (\$8.50 PGA + \$0.7674 ACA) that was effective November 1, 2000. This
19 rate was in effect until March 2001 (Schedule 2). The average PGA factor for local
20 distribution companies in Missouri was \$6.78. As you can see, the PGA rates for Eastern
21 District customers are already quite high when compared with other local distribution
22 companies in Missouri. ** _____

23 ** This causes a large under-recovery of costs that must be

Rebuttal Testimony of
Phil S. Lock

1 recovered through the ACA. **

2

3

4

5 **

6 Q. Do you have any reason to believe that this pipeline system will become
7 FERC jurisdictional?

8 A. **

9

10 ** For additional information,
11 see the rebuttal testimony of Staff witnesses Carmen Morrissey and Roberta McKiddy.

12 Q. Why are PGA rates higher for the Eastern District than the statewide
13 average?

14 A. First, delivery to the Eastern District customers requires transportation on
15 three separate pipelines, which results in higher transportation costs. Panhandle Eastern
16 Pipeline, MPC, and MGC each has its own set of tariffs and rates. Secondly, as described
17 earlier, ** thereby creating
18 an under-recovery of revenues that must be recovered through the ACA factor.

19 Q. Why have revenues not met expectations?

20 A. Staff believes that usage per customer is lower than expected, and
21 customer conversions from fuel alternatives (such as propane) have not occurred as
22 planned. The weather may have also been a contributing factor.

Rebuttal Testimony of
Phil S. Lock

1 Q. Do you anticipate the change of ownership will alleviate the customer and
2 usage concerns and increase the revenue flow for MPS's Eastern system?

3 A. Currently, no formal studies or analysis exist that would support that
4 conclusion. To date no details have been provided by Gateway Pipeline that would
5 demonstrate it's ability to either increase customer usage or increase customer base
6 significantly and reverse the current trend.

7 Q. What other impact could this sale have on current customers of the Eastern
8 District?

9 A. Historically consumers in this area relied on propane and other fuel
10 sources before natural gas was available. Staff believes if rates continue to increase, the
11 potential for customers to convert back to propane or other fuel alternatives is realistic.
12 As costs for natural gas increases more customers will be inclined to drop off the system
13 leaving fewer customers to share the costs. As more customers leave the system,
14 revenues will not meet expectations and the under-recovery of costs will continue to
15 grow.

16 Q. Has Utilicorp conducted strategic and business plans for the Eastern
17 District?

18 A. Utilicorp recently indicated that these plans were available for viewing in
19 the Raytown, Missouri office. Staff has been reviewing the plans as part of this
20 proceeding.

21 Q. What types of information would be analyzed by Staff in the strategic and
22 business plans of Utilicorp?

1 A. For my analysis, information such as customer and usage trends, customer
2 conversions, propane price comparisons, market studies, and cost and revenue analysis.

4 A. Capacity on both systems is nearly fully utilized by its current customers.

9 Q. Has a detailed strategic plan been developed by Gateway for its
0 acquisition of the pipeline assets of MPC and MGC?

14 Q. Did Utilicorps' Gas Supply Services provide any analysis on the impact of
15 this transaction on the Eastern District?

20 Q. Has Staff been able to conduct a complete analysis of this proposed
21 pipeline sale?

22 A. No. Some of the information that Staff requested is not available for
23 analysis. Information that was provided by Gateway contains little or no detail

Rebuttal Testimony of
Phil S. Lock

1 concerning Gateway's proposed plans to remedy the current problems faced by Utilicorp
2 in operating these pipelines.

3 Q. Do conditions exist for Gateway to engage in by-pass of Local
4 Distribution Companies to directly serve end users and to engage in retail service as an
5 LDC?

6 A. It was one of the concerns raised in Case No. GM-94-252. The
7 Commission addressed that issue and made it very clear that engaging in such activity
8 would require prior Commission approval.

9 Q. Has Gateway Pipeline Company adequately shown that approval of this
10 application will not be a detriment to the public interest?

11 A. First, Gateway has provided no details of potential customer growth in the
12 current service territory. Gateway has only indicated that financial success would be
13 **

14
15 ** It was further noted that increasing
16 revenues depend on ** after this transaction has been
17 approved. Gateway has provided no details on how it intends to increase customers base
18 or increase revenues.

19 Q. What are your conclusions regarding the application of Gateway Pipeline
20 Company?

21 A. Staff believes that approval of the sale of these assets to Gateway Pipeline
22 Company may be detrimental to the public interest for reasons outlined in my testimony.
23 They are as follows: high existing PGA rates (Eastern district) combined with potential

Rebuttal Testimony of
Phil S. Lock

1 for higher transportation costs if FERC assumes jurisdiction; non-competitiveness of
2 natural gas compared to propane; and customers converting to propane or other fuel
3 sources as a result of the high prices of natural gas along with the related loss of
4 Utilicorp's obligation to stand behind its highly optimistic sales growth projections.

5 Q. Does this conclude your rebuttal testimony?

6 A. Yes, it does.

7

April XX, 2001

(First name) (Last name)
(Street Address)
(City), (State) (Zip Code)

Dear Community Leader:

In our effort to keep you informed about the energy service we provide your community, I wanted you to be among the first to know about a change that will be occurring soon.

UtiliCorp United has agreed to sell our pipeline subsidiaries, Missouri Pipeline Company and Missouri Gas Company, to Gateway Pipeline Company, Inc. These subsidiaries own and operate a 250-mile long intrastate gas transmission pipeline, a portion of which serves your community. The transaction is expected to close on September 30 of this year.

This transition will not impact the natural gas service that your community is currently receiving, as Missouri Public Service will continue to provide service through its local distribution network. However, I understand that there will be questions surrounding this transaction and have attached a brief question and answer guide for your reference.

As always, UtiliCorp, through its Missouri Public Service operations, remains committed to your community and to providing safe, reliable and cost effective energy. I would be happy to answer any additional questions that you might have at 816.737.7528.

Sincerely,

Judy Ness
Director, Community Relations

Winter 2000-2001 Scheduled PGA Filings
November 2000 - March 2001 PGA

Table 1
Estimated Cost of Gas and Net Purchase Gas Adjustment (PGA) Rate

Firm Sales Customers -- \$/Mcf (\$ per thousand cubic feet)

